Canada

STANDARD ACCOUNTING SYSTEM FOR THE ACCOMMODATION INDUSTRY MARCH, 1974

PREPARED FOR:

DEPARTMENT OF INDUSTRY, TRADE & COMMERCE
OTTAWA, ONTARIO

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PREFACE

This material was written for use by the Canadian Government Office of Tourism.

The material presented herein by way of illustration was designed for educational purposes, and any similarity to actual persons or to actual accommodation establishments is unintended and purely coincidental.

Certain sections of the text were adapted from a management course offered by the Ministry of Colleges and Universities of the Province of Ontario through the Management Development Program of the Applied Arts and Technology Branch (course entitled "Financial Management — Hospitality/Tourism"). Permission to use this material is acknowledged with thanks.

With reference to organization, the material is divided into two sections. The first section comprises introductory material, presented in eleven chapters. These cover fundamental accounting and organization matters. The second section is more specific, and has been set up so that operators receive only the material which will be of benefit to them. The first sub-section is designed for accommodation operations providing lodging only, the second is for managers of establishments which offer additional services and the final section is geared to the needs of larger establishments requiring additional accounting information.

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PART I

INTRODUCTION

The growing complexity of business and the increasing use of information producing devices by competing firms strongly suggest that the small operator can no longer safely run his operation by the seat of his pants, however good his intuitions are. When the operator works primarily on opinion, flexibility tends to deteriorate into indecisiveness, and energy into waywardness.

System provides information

Although information is as vital to small operators as to large, many operators believe that a sense of, a feel of, or a smell of, how the business is doing is as good as having specific information. As a result, small businesses usually suffer from a lack of information on which to act.

System guarantees uniformity

A uniform system of accounts, as widely accepted within the industry, provides a concise, easily used reference for accurate account classification. This will help to ensure that there is uniformity from bookkeeper to bookkeeper and from period to period and also provide bases for making useful comparisons with a budget and within the industry.

First of all, a system of accounts is of no value unless it is generally used. Not only will it provide the operator with a very informed appreciation of his own operation, but by comparing his performance with the average, hotel by hotel, outfitter by outfitter, motel operator with motel operator, he can see at a glance where his weaknesses are and what their scope is, without having to worry about whether like is being compared with like.

Take the matter of book matches. He purchases them with his motel's name imprinted and leaves some in each room for guests to use and carry with them. One owner-manager might list the cost of the matches under "advertising expense", while another might call them "expendible rooms supplies". However, the Uniform Classification of Accounts enables all operators to use the same headings and minimize this problem. This becomes increasingly important in industry-wide surveys taken every year to help motels get a better look at themselves. In these surveys, operators across the country provide confidential information for compiling national and regional statistics. The individual owner-manager may find that his operating expenses are greater than the average of his competitors. He can then try to reduce these expenses to a level closer to the regional average for operations of his size.

By maintaining detailed records, an operator will not only gain valuable knowledge of the progress of his business, but will inspire confidence in those from whom he wishes to borrow money for the conduct of his business. Audited statements for such purposes can be prepared quickly and more accurately from the detailed records he maintains and thus can *save* him money.

System is management tool

Actually, the most important aspect of record keeping is the interpretation and study of the accounts in order to guide the future conduct of the business. The system as outlined in the second part of this manual seeks to provide the small operator with all the information needed to more effectively manage his operation. In summary the system will allow the following:

System results

1. Records of income and expense for each revenue producing department.

2. Records of expenses of other activities not directly associated with the revenue producing departments, e.g., heat, light and power; advertising and promotion and general overhead charges.

3. Accounts classification to ensure that the records mentioned in 1 and 2 above are consistently maintained in a uniform manner for comparative purpose.

4. The preparation of operating statements at frequent intervals for each revenue producing department.

5. The preparation of a summary operating statement bringing together the results of all the revenue producing departments and the expenses of the service departments.

6. The preparation of forecasts and the advantage of budgetary control.

7. The compilation of statistics for measuring the performance and/or level of activity in each revenue producing department.

8. Balance sheet information to provide management with data on the financial position of the business.

What does it cost?

In reviewing any proposal that professes to make you a more decisive and effective operator one question always arises — what is the cost to me in time? To add a record-keeping system to the daily routine, it would appear that an operator would be required to sacrifice time that he now uses for the very important areas of supervision, guest contact, inspection, and employee motivation. It is our suggestion that good records can save considerable time and money overall while increasing effectiveness in administration, supervision, and planning. Your accountant will then be able to more quickly, economically and easily perform his function as accountant rather than performing the role of bookkeeper as well.

What does it produce?

There is no prescribed method of keeping accounts in order to comply with the income tax laws. Income tax returns may be prepared in accordance with any method of accounting which is used regularly and which correctly reflects income and expenditures. By keeping records as provided for in this account book and following the instructions for preparing Yearly Profit and Loss Statements, an accurate determination of Net Income can be made. Of course, the larger the motel, or resort, the more complex financial matters become and the more important professional accountants become. Either an accountant, the provincial field representative or a trade association can guide the operator in the proper usage of the following records, should any assistance be required.

PART II

BUSINESS ORGANIZATION

Business entities are usually organized in one of three ways:

Legal form

1. **Sole Proprietorship** — In this case, one person owns the business. He is personally liable to meet all the obligations of the business.

2. **Partnership** — In a business organized as a partnership, two or more persons own the business. They may contribute equal or unequal capital, share in profits in the same or different ratios than capital is contributed and may share in losses in the same or different ratios than they share in profits. These matters should be clearly set out in writing in a Partnership Agreement.

3. **Limited Company** — The ownership of a limited company or corporation, is by means of shares. The liability of the shareholders is limited to the amount they may not yet have paid for their shares.

Legal advice

Some corporations offer their shares for sale to the general public and hence are called *public companies*. Irrespective of the form of business organization, the services of a competent lawyer are essential when the organization is formed and whenever any changes are under consideration regardless of how small they may appear. Questions of liability and the legal relationship between co-owners can be materially affected by events and by decisions taken. A lawyer will advise parties on the legal implications of their business arrangements; he will raise questions about and suggest solutions to matters which businessmen are likely to overlook. In summary, have a good lawyer, see him early, before decisions are made and keep him informed as part of your business team.

Income tax considerations

The tax effects of operating under different forms of business organization are substantially different and it is essential that you have a general understanding of these effects. You will not have sufficient knowledge to be your own tax adviser. Taxation has become so complicated that professional tax advisors are an indispensable part of any business operation. Generally, this advice is provided by public accountants who are the auditors for the business, but they may also be accountants or lawyers who have become specialists in the tax consulting field.

Organization Structure Considerations for Tourist Accommodation Operators

Small business operations are generally conducted within the legal framework of a proprietorship, partnership or corporation. The selection of one of these forms of legal organization is dependent on a variety of factors such as: the number of owners, the contemplated financial structure and the willingness of the owners to assume personal liability. A number of other personal considerations such as matters of taxation, may be infinitely more complex than the actual selection of the form of legal organization since they are related to the needs of specific individuals.

Federal and provincial regulations, corporate financing, and overall objectives are important items to be reviewed prior to the choice of a legal form. Beginning relationships may be quite different from those which develop later on, perhaps dictated by circumstances beyond the control of the management.

The primary concerns in discussing the choice of legal form can be summarized as follows:

Points of consideration

1. the nature of business,
2. the circumstances of formation,
3. the availability of capital,
4. the number of principals involved,
5. division of income,
6. government regulation,
7. taxation, and
8. transfer of interest.

Borrowing

Capital available to a business will usually vary substantially according to the legal form involved and the particular relationship of the owners and/or managers within the legal structure. If partnership is involved, the total combined asset position of the partnership becomes the bargaining base for securing funds. Within the context of the operation, partners are liable for the acts of other partners.

Operation's size

The single individual will normally think in terms of sole proprietorship until such time as business growth or other features of operations develop which require changing to a different form. For a group size of two to six a partnership may be suitable although this is not to say that a corporate form should be avoided. If a partnership is to progress and grow beyond a certain point the corporate form is usually necessary.

The general advantages and disadvantages of the two legal forms under discussion, partnership and corporation, can be summarized as follows:

General Partnership

Advantages

1. **Pooling of resources** – A partnership is frequently useful in conveniently bringing together two or more persons who as a group have more business potential than as individuals.

2. **Ability to obtain capital** – The combined financial resources of all the general partners stand behind negotiations for business capital.

3. **Simplicity and incentive** – The essence of the ordinary partnership is simple – equality. Each member is motivated by the knowledge that the success of the partnership is in part due to his efforts and as the business prospers, he will be rewarded as agreed upon earlier in the partnership agreement.

4. **Limited regulation and taxation** – A partnership, much like a proprietorship, is subject to a minimum amount of regulation and its partners are taxed on their own individual income.

Disadvantages

1. **Unlimited liability** — All the partners are ordinarily liable for the actions of each other.

2. **Tenuous existance** — Partnership is subject to many eventualities which may terminate or disrupt its operation. It may be terminated voluntarily or legally. It may be terminated by the death, insanity or incapacity of a partner.

3. **Proper management, harmony and co-ordination** — Equality of status between the partners is simple in theory but is somewhat more difficult in practice. Partners may not agree which could lead to power politics; division of work assignments may prove awkward; and necessary duties may be neglected.

4. **Problems in liquidation** — A partner's share is not easily disposed of except by agreement with other partners; usually this share goes to one or more of the remaining partners.

Corporations

Advantages

1. **Limited liability** — The owner of stock in a corporation has a limitation of liability to the amount of stock owned. Personal guarantees may be required.

2. **Legal entity** — The corporation is an entity separate and distinct under law, its ownership represented by shares of stock.

3. **Transferability of ownership** — The shares of stock may usually be sold or transferred without difficulty.

4. **Obtaining capital** — Forming a new corporation with a "viable" idea can provide opportunities to sell stock to a variety of investors.

5. **Employee benefits** — A corporation has a better chance to create incentives for employees and minor stockholders. Stock ownership and bonuses, pension plans, insurance programmes and other fringe benefits can be created more readily and possess tax advantages when formed by the corporation.

Disadvantages

1. **Legal formality** — A corporation is subject to considerably more control and more exacting compliance with regulation than a partnership.

2. **Possible division of ownership and management** — Through stock sales, the majority ownership of the corporation may be divided and control lost. The board of directors may wisely control management or, through apathy or neglect, may allow the business to be managed by those who are ineffective and lacking motivation.

3. **Protection of minority interests** — One or more stockholders holding a majority of stock will control a corporation. Minority stockholders are without recourse against the group except in cases of certain unlawful acts. Even where legal recourse is available it may be difficult to pursue, and too late to protect the minority stockholders' interest.

The preceding section describes some of the differences inherent in corporations, proprietorships and partnerships.

In dealing with the accommodation industry across Canada, we have to expect the legal form of the tourist enterprise to be predicated on the tax advantages that will accrue to the owner/manager. For example, an owner running a small tourist accommodation operation as a partnership or sole proprietorship will expect to incur a tax liability equal to the personal taxation rate for his taxable income. An operation which organizes as a corporation may be taxed to a lesser extent, claiming a smaller business tax deduction. Partners and sole proprietors are often at a tax disadvantage, as many small operators enjoy the active assistance of family members, but cannot reduce the taxable income of the operation through payment of a salary to a spouse.

PART III

SMALL BUSINESS: CONCEPTS AND PROBLEMS

Management personnel have generally assumed that the ways the big operators handle their affairs are the best methods for all businesses. The idea that small operations should be managed under a set of rules different from large operations is supported by the increasing difficulty small firms are having in earning profits as the competitive pace intensifies. Even when adequately financed and managed, small businesses operate under handicaps in an economy where big hotel chains play key roles.

Differences between small and large business

It is necessary to understand something about the differences between large and small companies, their inherent strengths and weaknesses and the advantages and disadvantages caused by size. A number of these differences are summarized below:

The most difficult part of the important task of planning in small operations is the setting of overall goals; and it is the least effectively handled. Conceptualizing an operation's goals in terms of externals (markets aimed at or served, product needs identified or to be exploited) is much more difficult for the small operation than it is for the large operation.

Nothing a small operation does in planning should be allowed to affect, even temporarily, the personal *customer services* which are critical to the survival of small operations.

Keeping costs low is the most important advantage a small firm can possess. Not having the advantages that stem from high capitalization and economies of scale, the profitability of a small operation rests largely on the tighter control that the operator must exercise over costs.

The small operation is usually less hierarchical, systematized, and compartmentalized than the large company and is, therefore, more readily disrupted by persons with deficient interpersonal interests and skills. (Beware of the trouble maker or complainer – he may be causing you more damage than you realize.)

Small operations lose employees more often for dollars than do large operations. Small firms should review compensation against the cost of replacing and training key people and make adjustments that are needed to attract and keep effective people.

A high percentage of small companies which aim primarily at getting bigger, and which succeed in greatly increasing sales volume, often lose control over costs and strangle in their growth.

PART IV

THE EVOLUTION OF FINANCIAL STATEMENTS AND RATIOS

There is often confusion regarding the exact meaning of the terms bookkeeping, accounting and auditing. They are all part of the production process of accurate financial information.

Bookkeeping is the recording of transactions, for example, listing of cheques issued and keeping accounts receivable ledgers.

Accounting is the process of arranging the information recorded by the bookkeeper in order to produce financial statements. Two questions which are answered by the accountant are:

(a) What are the results of operations for a given period of time? This presentation is called the operating income, earnings, or profit and loss statement.

(b) What is the financial position of the enterprise at a specific point in time? This is presented in the balance sheet.

Presently many small operations rely heavily on *annual accounting* provided by outside professionals instead of using routine *accounting procedures* as a basis of timely management information.

Annual accounting produces historic data

The evolution of management information systems is based on the assumption that effective management decisions depend upon frequent and regular reports containing information essential to prompt action. In contrast, annual accounting is historical; it is based on the recording of past transactions throughout an accounting year, and their summary at year end to produce operating and balance sheet statements. Annual accounts, however, are often much too late for action required to correct operational errors.

Management information systems rely on a classification of accounts to identify the sources of income, cost and profit. Annual accounts do not require an extensive accounts classification; they reveal profit, but not necessarily how or when it was achieved, and they do not on their own give any indication of whether profits could have been higher.

Annual accounts compare results for the year with the results of the previous year. While these comparisons may give a broad indication of progress they can, by themselves, be misleading as a basis for control in a business environment in which circumstances tend to alter rapidly. Most properties are already recording information which, with some extra effort, can be converted into management information data common within the industry. However, operators adopting the system must be prepared and willing to record information on a regular basis.

Auditing, the final step in the process, is intended to verify the accuracy of the records and financial statements. In a large enterprise this may be carried out by an *Internal Auditor* who is an employee. An independent review is made by a *public accountant* who issues and attaches his report based on the fairness of the financial statements.

A public accountant is a skilled professional auditor who offers numerous financial services to the general public. In some provinces, public accountants must be licensed.

EXHIBIT I

WILDWOOD HOTEL LTD.
(000's)

Operated Departments:	Year Ended December 31, 197 Sales	Cost Of Sales	Payroll & Employee Benefits	Other Expenses	Departmental Profit	Year Ended December 31, 197 Sales	Cost Of Sales	Payroll	Other Expenses	Departmental Profit
Rooms	$178	$ –	$ 33	$ 17	$128	$177	$xxx	$ 38	$ 12	$127
Food and Beverage	177	60	44	40	33	179	68	43	38	30
Telephone	13	9	xx	4	–	15	10	xx	4	1
Other	3	1	xx	xx	2	4	2	xx	xx	2
	$371	$ 70	$ 77	$ 61	$163	$375	$ 80	$ 81	$ 54	$160
Undistributed Operating Expenses:										
Administrative and General	xxxx	xxxx	$ 24	$ 12	$ 36	xxxx	xxxx	$ 23	$ 14	$ 37
Advertising and Promotion	xxxx	xxxx	6	6	12	xxxx	xxxx	xxxx	6	6
Heat, Light & Power	xxxx	xxxx	–	9	9	xxxx	xxxx	xxxx	9	9
Repairs & maintenance	xxxx	xxxx	6	12	18	xxxx	xxxx	7	15	22
	xxxx	xxxx	$ 36	$ 39	$ 75	xxxx	xxxx	$ 30	$ 44	$ 74
Total House Revenue, Expenses and Profit	$371	$ 70	$113	$100	$ 88	$375	$ 80	$111	$ 98	$ 86
Fixed Charges					$ 53					$ 58
Operating Income before Depreciation and Income Taxes					$ 35					$ 28
Depreciation					$ 24					$ 25
Income (loss) before Income Taxes					$ 11					$ 3
Estimated Inc. Taxes (recovery)					$ 1					$ 1
Net Income (loss)					$ 10					$ 2

Statistical data:

No. of Rooms available:	9,125
No. of Rooms occupied:	6,388
No. of Guests:	8,748

Financial Statements

(Wildwood Hotel Ltd., Exhibits I & II, illustrate the following statements).

The most common and useful financial statements are the operating statement and the balance sheet. Each is described below and a sample statement is included. A glossary of terms is provided in Chapter XI.

1. The *operating statement* (sometimes called profit and loss statement, P&L statement, income statement, or statement of earnings) is a summary of revenues and expenses and shows the profit or loss for a given period. It is one indication, in dollars and cents, of the efficiency of the enterprise.

2. The *balance sheet* presents the financial position of an enterprise at a given moment in time. It shows the assets that are owned by the enterprise, its liabilities and owner's equity.

Uniform System of Accounts

In efficiently managed hotels, financial statements are generally prepared in accordance with the "Uniform System of Accounts for Hotels" which has been adopted by the American Hotel-Motel Association. This uniform classification facilitates the comparison of financial statements within the hotel industry and from period to period for a specific hotel. The accompanying records have been designed in accordance with the system's classifications of revenue and expenses.

Interpretation of figures

These statements provide a wealth of information to management in terms of dollars and cents. However, the figures themselves tell only part of the story. Their translation into the most meaningful and useful form is accomplished through the use of ratios, percentages and turnover calculations.

A *ratio* is the relation of one number to another. For example, if food sales are $30,000 and room sales are $50,000 for the period, the ratio of food sales is $\frac{\$30,000}{\$50,000}$ or 3/5 or 3:5.

A *percentage ratio* is a simple ratio multiplied by 100. For instance, in the example above, the percentage of food sales to room sales is $3/5 \times 100\% = 60\%$.

Turnover is the average number of times that a group of items "turn over" in a period of time. For instance, if the cost of liquor sold is $100,000 and the average inventory of liquor is $10,000, then we can say that the inventory turned over 10 times during the year ($100,000 divided by $10,000). Staff turnover is usually expressed as a percentage. For example, if 15 employees are required to run the establishment, and 30 people were employed during the year, the turnover rate is 200%.

The value of the calculations defined above lies in their *comparison with*

(a) Past figures of the enterprise:
  - (i) Have we done better or worse than the last period? Why?
  - (ii) What changes have occurred in revenue, expenses, profits, and financial position? Why?

(b) Budgeted figures:
  - (i) Are actual figures above, below or close to budget?
  - (ii) What accounted for variances?
  - (iii) Where is action required?

(c) Past or current figures of other similar enterprises and average figures for the industry as a whole:
  - (i) Are we efficient compared to other similar operations?
  - (ii) How does our financial position compare to other operations and the industry as a whole?
  - (iii) What are our weaknesses and strengths?

EXHIBIT II

WILDWOOD HOTEL LTD.
BALANCE SHEET

	December 31, 197	December 31, 197
ASSETS		
CURRENT:		
Cash on hand	$ 260	$ 260
Accounts receivable	25,846	24,573
Inventories	9,199	8,434
Prepaid expenses	1,458	974
Income tax refundable	–	62
Total Current Assets	$ 36,763	$ 34,303
FIXED:		
Land, building, furniture and fixtures, at cost	473,207	461,667
Less accumulated depreciation	214,110	189,764
	$259,097	$271,903
TOTAL ASSETS	$295,860	$306,206
LIABILITIES		
CURRENT:		
Bank indebtedness	$ 22,344	$ 21,372
Accounts payable and accrued liabilities	41,803	54,132
Payroll deductions	1,958	1,906
Estimated income taxes	1,498	–
Mortgage payable, current portion	13,822	11,977
Loan payable	4,000	4,000
Total Current Liabilities	$ 85,425	$ 93,387
LONG-TERM:		
Mortgage payable, 7%, maturing October 15, 1982	202,572	209,778
Less principal payments due within one year	13,822	11,977
	188,750	197,801
Loans payable	15,201	16,014
	$203,951	$213,815
SHAREHOLDERS' EQUITY		
Total shareholders' equity (deficiency)	6,484	(996)
Total Liabilities and Shareholders' Equity	$295,860	$306,206

Analysis of Operations

This analysis is generally performed using information provided by the income statement and some non-financial statistics.

Operating statistics may be expressed in different ways. Some examples are:

(i) ratio to room sales
(ii) ratio to total sales
(iii) cost per available room

Some examples of useful ratios that can be derived from operating statements follow: (figures taken from Wildwood Hotel, Ltd., Operating Statement, year ended December 1973)

Double occupancy percentage

$$\frac{\text{Net income}}{\text{Total sales}} = \frac{10}{371} \text{ or } 1{:}37.1$$

$$\frac{\text{Room sales}}{\text{Total sales}} = \frac{178}{371} \text{ or } 1{:}2.09$$

$$\frac{\text{Rooms occupied}}{\text{Rooms available}} \times 100 = \frac{6388}{9125} \times 100 = 70\% \text{ occupancy}$$

$$\frac{\text{Number of guests} - \text{Number of rooms occupied}}{\text{Number of rooms occupied}} \times 100 = \frac{8748 - 6388}{6388} = 36.9\%$$

$$\frac{\text{Rooms sales}}{\text{Rooms occupied}} = \frac{178{,}000}{6388} = \$27.80 \text{ average rate per occupied room}$$

$$\frac{\text{Food sales}}{\text{Room sales}} = \frac{178}{177} = 1{:}1$$

$$\frac{\text{Cost of food sales}}{\text{Food sales}} \times 100 = \text{Food cost percentage}$$

$$\frac{\text{Cost of Beverage sales}}{\text{Beverage sales}} \times 100 = \text{Beverage cost percentage}$$

$$\frac{\text{No. of guests served}}{\text{No. of waiters (waitresses) employed}} = \text{Guests served per waitress}$$

$$\frac{\text{Food sales for a period}}{\text{Number of guests served for a period}} = \text{Average cover}$$

There is really no limit to the ratios and percentages that can be calculated. Management should make whatever calculations are relevant and useful. For example, if management was considering changing its menu prices it would be useful to know how its present average cover compares to the average cover of similar establishments. A ratio is most useful when there are industry standards or past or budgeted figures with which to compare.

An analysis of the balance sheet can reveal several useful ratios and statistics.

> The difference between current assets and current liabilities is called *working capital*. In general, this is one indicator of whether or not the enterprise will be able to meet its obligations during the coming period. The working capital ratio (also called the current ratio) is current assets divided by current liabilities. A working capital ratio greater than one usually indicates that the enterprise will be able to meet its current obligations.

In many industries "negative" working capital (a ratio of less than one) is regarded as a sign of financial ill health. However, in the hospitality industry this rule does not apply. An establishment is renting rooms and these rooms are not included in current assets. Thus the property can have a negative current ratio and yet be well able to meet its obligations. Sometimes even banks and other lenders are unaware of this distinction between retail or manufacturing organizations and accommodation establishments. Retailers and manufacturers have an inventory of merchandise which appears on their balance sheets, whereas accommodation establishments have an inventory of available rooms which are not reflected on the balance sheet.

A second point to note accommodation establishments is the enormous investment in fixed assets — namely the buildings, furnishings and equipment. Sometimes a more meaningful measure of financial health for hotels is:

$$\frac{\text{Total assets}}{\text{Total liabilities}}$$

which indicates the percentage ratio of "what is owned" over "what is owed".

Other information that is useful to readers of financial statements is:

the return on assets employed — $\dfrac{\text{Net income}}{\text{Total assets}}$

the Return on investment — $\dfrac{\text{Net income}}{\text{Owner's equity}}$

These provide an insight into the efficiency with which management used the resources of the business. Net income may be taken before or after taxes as long as comparisons are made on the same basis.

Some ratios are derived from one figure which comes from the income statement and the other which comes from the balance sheet — for example, *turnover ratios.*

$$\frac{\text{Cost of food sales for period}}{\text{Average food inventory for period}} = \text{Inventory turnover}$$

This calculation can be made for any department which carries inventory for resale, e.g., food and beverage departments. Generally, a high rate of turnover is desirable. The industry average in recent years has been 28 times for food and about 9 times for beverages.

Again, these calculations are most useful when they are compared to others, as demonstrated in the next chapter.

PART V

INTERPRETATION OF PROFIT AND LOSS STATEMENTS

A simple operating statement is the starting point in a discussion of financial statement interpretation. Some expense items are most practically considered on a yearly basis, e.g., depreciation and loan interest. These items would be the same each month, so that analysis can be concentrated on those items which can be compared on a monthly basis. We suggest that some interpretation of the balance sheet and operating statement be done more frequently than annually; prompt action should be instigated if some costs or expenses deviate from the previous year or from budgeted figures or industry standards for similar operations.

The following operating statement illustrates the approach. (See Wildwood Hotel statement in Part IV)

Last Year (197)		This Year (197)
$ 375	SALES	$ 371
80	Less: Cost of sales	70
295	Gross Profit	301
	Less:	
54	Other Expenses (Operated Departments)	61
111	Total Payroll and benefits	113
14	Administrative and General	12
6	Advertising and Promotion	6
9	Heat, Light and Power	9
15	Repairs and Maintenance	12
209	Total Expenses	213
86	House Profit (before interest, depreciation, taxes)	88

The preceding example reveals improvement with increased gross profit, but the information does not establish why this is so, or whether or not the results are as expected.

The first step is to apply a percentage to all costs and expenses as a percentage of total sales. The following is a percentage analysis.

Last Year (197)			This Year (197)	
$375	100%	SALES	$371	100%
80	21.3	Less: Cost of sales	70	18.9
295	78.7	Gross Profit	301	81.1
		Less:		
54	14.4	Other Expenses (Operated Departments)	61	16.4
111	29.6	Total Payroll and Benefits	113	30.4
14	3.7	Administrative and General	12	3.3
6	1.6	Advertising and Sales Promotion	6	1.6
9	2.4	Heat, Light and Power	9	2.4
15	4.0	Repair and Maintenance	12	3.3
209	55.7	Total Expenses	213	57.4
86	23.0	House Profit (before interest, depreciation, taxes)	88	23.7

Comparing the percentages for last year and this year, it can be seen that net profit as a percentage of sales has not materially changed. Without other information this would be taken to mean that the additional net profit of S2,000 has come largely from the increase in volume of business done, rather than from improved operating margins. On closer analysis, gross profit has increased by 2% due to a reduction in cost of sales, and this has been offset by an increase in total expenses largely due to an increase in "Other Expenses" from 14.4% to 16.4%. What cannot be determined is whether all, or only some, of the sales are earning the improved rate of gross profit, or to which sales the increase in wage costs can be attributed.

By lumping all revenues and expenses we can get an overview of our operation and how it compares with similar periods last year or with industry averages. However, we do not get any idea of what individual profit centres are contributing to net revenues, or whether or not they are contributing at all. In terms of dollars they could be actually costing your operation or contributing so little as to be not worth operating at all. The following case provides an example of a slightly more sophisticated approach to what a detailed analysis of two beverage operations within a property can provide.

Frank DuBois was satisfied with the operating results of the two beverage lounges of his Four Winds Resort Hotel. The income statement for this department for the last period appeared as follows:

Four Winds Hotel Limited
Income Statement – Beverage
For the year ended December 31, 197

Sales			$117,768	100.0%
Cost of Sales			34,247	29.0%
Gross Profit			$ 83,521	71.0%
Expenses:				
Wages	$18,843	16.0%		
Entertainment	26,665	22.7%		
Beer and liquor taxes	3,142	2.7%		
Supplies and other expenses	1,651	1.3%	51,471	42.7
Departmental Profit			$32,050	28.3%

Each beverage room had its own inventory and storage room. Mr. DuBois made use of preprinted inventory sheets at monthly intervals and kept copies of them for his records.

From various industry publications Mr. DuBois learned that the industry average for gross profit in beverage rooms was 70%. Frank was proud to exceed this standard and felt that he was a good manager to be able to do so. He received monthly financial statements similar to the one shown above and carefully kept costs in line.

During the summer of 197 , Frank retained a management consultant to advise him on general procedures. The consultant noted that the bartender in Lounge I occasionally failed to ring up a sale. Frank was surprised but said that there was no way he could have noticed this because the figures indicated good results and he didn't spend much time in any one room. The consultant then produced the following analysis for the year.

	Lounge I	Lounge II	Total
Sales	$43,736	$74,032	$117,768
Cost of Beverage Sold	14,258	19,989	34,247
Gross Profit	$29,478	$54,043	$ 83,521
Gross Operating Income	67.4%	73.0%	71.0%

This example illustrates the benefits of detailed evaluation of each revenue or expense. Just because combined departmental results are in line with expectations or industry averages, there is no reason to believe that improvements cannot be made.

PART VI

BREAK-EVEN ANALYSIS

Many failures in small businesses can be traced to a product or service that was being sold at the wrong price. This can be regarded as a failure to know costs, since an accurate knowledge of costs must be the first step in setting prices.

A useful calculation that can be made using a classification of costs is the determination of the *break-even point*. This reveals the sales volume at which the enterprise will just "break-even", or, where total revenues are equal to total expenses.

Before going into methods for calculating your break-even point, some definitions are needed:

Revenue: Your operation's income. For purposes of finding the break-even point in this discussion, revenue will be limited to room sales.

Fixed Costs: Fixed costs are those which do not change over a wide range of sales volume. In other words, fixed costs are the basic costs of being "open for business", whether or not you have one guest or one hundred. Examples are rent, mortgage payments, depreciation, fixed salaries, property taxes etc.

Variable Costs: These are costs that will vary in direct proportion to the number of guests you have. They include laundry, guest room supplies, and similar items. A variable cost in the food department is cost of food, which is directly related to food sales.

Semi-variable expenses: Some costs are partially fixed and partially variable in nature. These are known as your semi-variable costs. An example might be maids' wages. A minimum staff might be on at all times with additional maids added in busy periods. Your utility bills form a continuing expense, although your use of water and electricity will vary from month to month. For purposes of the present calculations, a reasonable average will be included with the amount for fixed expenses.

Occupancy: If you have 20 rooms and rent 15, your occupancy for the night is 75 percent. For longer periods, you multiply the number of rooms by the number of days to determine the total number of rooms available. Then you compute your occupancy percentage on the basis of total number of rooms rented. Thus, in a 30-day month, your 20-unit property would have had a total of 600 rooms available for rent. If you rented 480 rooms during the month the occupancy level would be 80 percent.

Average room rate: Most soundly operated properties do not have rate changes frequently, as they contribute to guest dissatisfaction; seasonal changes are common in resort areas, but the average room rate does change. Because you have rooms which accommodate one, two, three, four or more persons, the single night's income from a room can fluctuate. If your room revenue in the 30-day period above was $5,760 and you rented 480 rooms in the period, your average room rate was $12 (dividing the number of rooms into the amount of income).

The formula for finding your break-even point is:

$$\text{Break-even point in dollars} = \frac{\text{Fixed costs} \times 100}{100\% - \%\text{ variable costs}}$$

Example:

A property with 25 rooms has an average room rate of $10.00. Fixed costs total $36,000 and the variable cost per room is $4.00 or 40% of the room rate.

$$\text{Break-even point in dollars} = \frac{\$36{,}000 \times 100}{100\% - 40\%} \quad \frac{\$36{,}000 \times 100}{60\%} = \underline{\$60{,}000}$$

At a sales level of $60,000 this establishment neither makes money nor loses money.

Such a calculation would be very useful if the manager wishes to study the effect of raising room rates. A higher room rate lowers the break-even point, since a smaller proportion of each dollar of revenue must go to cover fixed costs.

Carrying the analysis one step further, we can calculate the occupancy rate required to break-even. If there are 25 rooms available each night at an average rate of $10.00, then total possible revenue is 25 x $10.00 x 365 = $91,250. Dividing this figure into $60,000 gives us a required occupancy of 65.8%.

$$\frac{\$60{,}000 \times 100}{\$91{,}000} = 65.75\%$$

Using this formula, you can see the effect of raising or lowering your rates, of assuming new debts (perhaps for addition of a swimming pool), or other adjustments in your business. For example, the same property but with the room price reduced to $9.00 for the cost structure described above would show that an occupancy of 73% would be required, just to reach the break-even point. For example:

$$25 \times \$9.00 \times 365 = 82{,}125$$

$$\frac{\$60{,}000 \times 100}{\$82{,}125} = 73.05\%$$

Other factors influencing the determination of room rates are discussed in the following chapter.

This formula allows you to weigh the consequence of many management decisions you may have in this respect. For example, hiring a manager at an agreed annual salary would raise the fixed expenses, and hence shift the break-even point toward a higher occupancy level. Making the last payment on a mortgage for some capital asset would lower the fixed expenses, shifting the break-even point toward a lower occupancy level.

PART VII

DETERMINING ROOM RATES

Determining the operation's rate structure is vital because the financial success of most accommodation businesses depends heavily upon room revenues.

Different opinions about setting rates

Operators often have different ideas about setting rates; some feel that rates bear no relationship to costs. The rate should be set at what the room is worth in current markets, i.e., what the guest is willing to pay. For example, new carpets can be provided in guest rooms which make them appear rich and comfortable. In the mind of the guest, he expects the room to be more expensive than the usual room and is willing to pay for it. The investment in the room may not be high; it just appears this way. The same principle can be applied to the operation's exterior appearance, lawn, grounds, or lobby. Imaginative design and skillful blending of the building components using lower cost materials can produce an establishment which has aesthetic appeal, but actually represents a modest investment. The owner of such a property makes better than average profit because he has an attractive facility, yet a low investment per room. In summary, the rates would have to cover costs but the costs are not the basis for setting rates.

Other operators feel that the average rate charged should represent the costs involved in providing the room, plus overhead, return on investment and a fair compensation to the owner for his labour and management. Thus rates are set on the basis of costs and a fair profit. The choice of method is one each manager must make for himself.

Several other "methods" of determining rates are used by managers. One of the most common is to set rates similar to your competitors. This procedure is not recommended as it does not necessarily reflect true value offered.

Generally speaking, determining the right rate structure for a tourist establishment is a combination of economic, competitive and marketing considerations. Not one of these will be neglected by a prudent operator. However, the basis for this decision should be the break-even analysis.

PART VIII

BUDGETING

What is budgeting?	A systematic approach to forecasting expected future operations and results.
Do successful accommodation establishments budget?	Almost without exception.
Do budgets work?	Indeed they do.
Are budgets accurate?	That's the wrong question. The right question is, are budgets useful?
Are budgets useful?	They are useful and profit - able.

Lets talk about accuracy in budgeting. If someone could budget accurately, he would not need to be in the industry, he could make a fortune at almost anything. As long as we cannot foresee the future, we will have to live with "guestimates" – in other words, budgets. If someone is really interested in accuracy, it becomes essential that he look ahead, plan, budget and forecast; any budget will be more accurate than no budget! In addition, experience has shown that the most important aspect of budgeting is to get started; with each new budget, new skills are gained, better analyses are made and better results achieved.

Budgeting thus gets easier with experience; difficulties experienced in preparing the initial budget should not discourage anyone.

In addition, the very process of analysing each item that goes into a budget – of analysing each item carefully and meticulously – will produce benefits in unexpected areas. For example, instead of accepting your advertising because it is in the usual percentage range for the industry, you will take a look at how you are spending your advertising money and you will see, perhaps, that it is too concentrated in one season, that too much has gone into one medium, that certain prices deserve new comparisons with competitive suppliers, etc., etc. Perhaps you will find out that your advertising budget has produced the desired results because you operate at capacity. You should then consider reducing it and saving costs. In this way a budget can also be a cost saving device.

How is a Budget useful?

There are four ways:

1. In the process of budgeting, *forecasts* are made. What will sales be? What will expenses be? What will profit or loss be? What are the cash flow requirements? If any of the results of the forecasts are not satisfactory, the budget has already proved its worth. It is much better to have this picture before the year starts than to wait until the year is over and then receive notification of bad results that were in fact predictable. If you can see it in advance, you can do something about it. If it turns out there is no solution to a bad situation, then the answer may be to sell out or close up and prevent a bad situation from getting worse. This can save

whatever capital is left, as well as many months of wasted energy. Usually it will not come to this; the unsatisfactory picture might be changeable through different policies or practices.

2. By the time you have finalized your budget, you have created a *plan of action*. You know what your policies must be and when they should be put into effect. You are able to co-ordinate cash flow with equipment purchases, advertising, facility improvement decisions and staff hiring.

3. Budgets set *targets*. People can accomplish more when they are working towards achievement of a goal than when they are simply doing "the best they can". A common target can produce better co-operation between owners and managers.

4. Finally, budgets provide a means of *control*. Month by month you can compare your actual results with your budget. If results are not up to budget, then it is a matter of finding out why; perhaps the budget was too optimistic or circumstances have arisen which were beyond your control, or perhaps someone has not been doing his job well enough. This gives management a chance at the earliest possible moment to re-evaluate its direction. The budget has provided a benchmark from which management can measure how seriously the target will be missed so that new courses of action can be taken. When someone is under-performing, there is an opportunity to bring this to his attention with minimum chance of the matter being "smoke screened". When someone performs beyond expectations, there is a sound basis for rewarding this performance.

What are the advantages of Budgeting?

In addition to those referred to above, there are other important advantages to budgeting:

1. Already stated, but worth restating, are the discoveries that will be made during the process of budgeting. Many businessmen believe the greatest worth is not in having a budget but in preparing it.

2. Banks and other lenders are more responsive to businessmen who "do it right". A budget shows business skills, provides information the lender needs to arrive at a decision and inspires a greater degree of confidence in the applicant. Of course, the presentation of a budget does not ensure a favourable response from the lending agency — but it does improve the odds.

3. Potential investors will generally have greater interest in an investment opportunity where they are given a chance to examine future expectations.

In a small business, the owner and/or manager will prepare the budget, perhaps assisted by the auditor, who should be able to contribute a wealth of experience in this area.

What period should a Budget cover?

1. As described above, it should be for one year in advance, or, for seasonal operators, it should cover the length of his season.

2. Annual budgets should be constructed from the individual monthly budgets for the next twelve months. It is not satisfactory to prepare an annual budget and then divide it into twelve parts. In order to take into account seasonal changes and to gain the benefits of careful analysis, the sales, labour costs and variable and semi-variable expenses must be considered on a month-by-month basis.

   However, some items should be calculated for the monthly statement budgets on the basis of dividing the annual estimated cost by 12; for example, realty taxes, depreciation and mortgage payments.

   Actual monthly statements should be prepared and a comparison made between budget and actual figures and the variances determined. The important favourable and unfavourable variances should be followed up, thoroughly understood and acted upon.

It is important in preparing budgets that the same account classifications be used as will be used in preparing the actual statements. Unless this is done, the advantages of comparison are lost.

3. Another budget or forecast which is used by successful operators in the hospitality industry is the "week ahead" or the "ten days ahead" forecast, whichever length of time seems more helpful to the organization. Assuming it is the week-ahead forecast, each morning the banquets, conventions, room reservations and estimated walk-in or non-reservation business are summarized for each of the next seven days. This enables management to plan its part-time labour requirements and food and beverage purchases. The next day, a new day is added to the list and the first day is dropped, and the other six days are revised, if necessary, to take into account new information or expectations. Thus, every morning, management has an estimate of its business for the coming week, day-by-day.

4. It is also becoming more common to budget 2, 3 and 5 years in advance. These longer range budgets are usually not prepared in the same detail as annual budgets, but they are very important when major capital expenditures are contemplated, or policies with long term effects are introduced, or where there are highway, recreational or other regional changes expected in the area.

How are Budgets prepared?

1. Start with sales. Sales should be broken down by department — rooms, food, beverages, golf course, etc. Within each department, a further breakdown is made — beverages will be classified as wine, beer, liquor and minerals. Separate estimates will be budgeted for each location (e.g., dining room, bar, etc.). Look at sales trends from past years plus information of any and every new factor, such as increases in room rates, new competition or highway improvements. Take note of any changes in policy such as hours of operation, entertainment or package deals. Also consider calculations which you have done beforehand, like the break-even analysis or the determination of room rate.

2. Expenses should then be compared with the departmental sales estimates. Here, an understanding of fixed, variable and semi-variable expenses is important.

   Using past figures and any new information, a fair estimate of expenses can be made. For instance, if you know that there will be a wage increase during the period of 10%, this should be considered, along with increased labour expense arising from increased sales activities. Similarly, all the effects of policy changes must be considered.

   Fixed expenses, that is, those which are not related to sales, such as insurance, realty taxes and rent, should be estimated using all information available.

3. Projected operating statements are prepared from the revenue and expense budgets. Also, projected balance sheets, fund statements, statements of cash receipts and disbursements can be prepared, but these will require the assistance of an experienced accountant or auditor.

When do you prepare the Annual Budget?

Preferably before the year starts. Do not wait for the current year's financial statements. Waiting will lose the benefit of having your budget ready in advance of the period it covers; and if you try to budget in April, 1974 for the year ending December 31, 1974, you will find complications arising over the part of the year (January, February, March and part of April) which has already become history. Prepare the budget in November or December of the preceding year. Estimate the things you do not know about the year. When April comes around, you can revise the budget for the balance of the year.

Don't worry about your predictions being accurate. Be careful, be thorough, but don't expect accuracy.

PART IX

STAFF SCHEDULING

Being service oriented, one of the major expenses of each hospitality operation is salaries and wages. Careful staff scheduling can avoid any unnecessary overstaffing and subsequent excessive payroll costs. The departmental wages record, as outlined in Form B-21 is the basis of any staff forecasting and a major tool for improving your operation's profitability.

What is required to determine how much staff is required in various job categories for various hours and shifts of the day and days of the week?

Two sets of information are required:

(a) Short-term forecasts (the week ahead or 10-day ahead forecast).

It is surprising the degree of accuracy in forecasting that will be achieved over a period of time. As skill is developed in preparing forecasts, noticeable savings will be made in payroll. There will also be other benefits: by avoiding an excess of staff, morale should improve through less idleness; tips per employee on duty should be larger because everyone is fully busy, and this in turn should reduce turnover.

(b) Standard work loads – the number of rooms that can be made up by a chambermaid, the number of covers that can be serviced by a busboy, etc. These productivity standards should be based on careful analysis of the establishment's own operations and not solely on some other operation. For example, each property has its distinctive kitchen, serving and dining facilities and its own policies and menus and these influence the number of preparation and serving staff.

To determine productivity standards for your establishment it is necessary to accumulate and analyze data which will later be useful in planning shifts. (On Form B-21)

It is illogical to apply the average number of covers handled by a waitress during the lunch period to breakfast or dinner because the length of the meal periods, the menu and style of service are different. Therefore, determine your statistics by meal period and by day of week and by days with special characteristics (e.g., holidays).

Work-Time Schedules

Studies which suggest better methods of doing the job, and better ways of employing material, can bring about labour savings. Work-time schedules can be used to allocate different tasks to different hours of the workday, thus assuring maximum efficiency of those who are working. It should be kept in mind, however, that these schedules are very theoretical in nature and that, in smaller operations, common sense and experience often result in the best utilization of manpower.

Turnover

There are substantial hidden costs related to turnover of employees. There are the costs of searching, advertising for staff, the time spent interviewing and the time spent training the new employees and supervisors. There are problems when customers are improperly served while new employees learn their jobs: menu items may be varied from standard portions, and it has also been suggested that there is a higher accident rate amongst new staff.

It would be worthwhile to calculate the turnover rate from time to time in various departments of your operation. For example, assume that an operation had an average of four chambermaids on staff and that during a six month period there were eight replacements, then the turnover rate would be $8/4 \times 100\% = 200\%$ for a six month period, or 400% per year. Assuming that there are costs both hidden and direct of \$300 per replacement, then the six month cost of replacing chambermaids would be \$300 × 8 on \$2,400 per six months or \$4,800 per year.

Absenteeism

Absenteeism can be both costly and disruptive. A record should be made of an employee's absences in his employment. Upon review, it may be noticed that these follow a certain pattern whereby there is undue absence before and after weekends, holidays, after pay day etc.

For various departments or for the hotel overall the absentee ratio or percentage should be worked out. This is calculated by dividing the number of days absent by the total number of scheduled work days for the average number of employees in the department or in the hotel; this will give the ratio; to convert it to a percentage, multiply by 100. For example, if there were 20 days of absence in the rooms department over a three month period, in which 500 work days were scheduled (including the days absent) then the absentee ratio is 1/25 for the 3 months or $1/25 \times 100 = 4\%$ for the 3 months, which is 16% annually.

Because of the turnover and absentee problems it is necessary for management to have good part-time replacements available on immediate notice; such replacements are very valuable and important to the operation. These persons will fill in during the absence of regular staff, while permanent replacements are being hired, during vacation periods and at times of peak loads.

It is, of course, impossible to reduce the turnover rate or absent rate to zero. The important thing is to determine whether it is higher than it need be and to take steps to correct the faults. The faults may be in wage scales or in the physical locker room or washroom facilities available to the employees. They may be in the meals served to them or in the quality of supervision or the opportunities for feeling a part of the work group. They could also be in the difficulty of gaining the respect of staff and management, or the lack of opportunity to achieve. Or there may be matters outside the hotel such as the difficulty of getting to the establishment and returning home. Whatever the problems are, they should be looked at and attempts should be made to solve them. It is often found that many solutions come from employees themselves. Good managers make a point of questioning resigning employees.

PART X

CLASSIFICATION OF EXPENSES

For some establishments it would be difficult to separate certain expenses, such as cleaning supplies, according to departments. Wherever possible, such expense items should be kept separately; i.e., detergents for cleaning of rooms should only be used in the Rooms Department, detergents for cleaning kitchens, etc. should only be used in the Food and Beverage Department. Where this is not possible, the operator should make sure that these expenses are properly allocated.

A thoroughly detailed classification of expenses is presented in the publication "Uniform System of Accounts and Expense Dictionary for Motels — Motor Hotels, Small Hotels" as approved by the American Hotel and Motel Association. The terms "motels" and "motor hotels" include motor inns, highway lodges, tourists courts, etc. It is useful for managers to familiarize themselves with this publication. It is available through many bookstores or can be ordered from the Association at 888 — Seventh Avenue, N.Y. 10019.

Presented below are some examples of expense and labour classifications which are in common use in the accounts of accommodation establishments.

Rooms Department

Laundry

Cost of laundry chargeable to the Rooms Department as indicated by bills of outside laundries.

Supplies

The cost of cleaning supplies and expenses to the Rooms Department, such as:

Ammonia	Brooms	Brushes
Carpet sweepers	Cleaning fluids	Contract cleaning
Detergents	Disinfectants	Dusters
Floor wax	Mops	Pails
Rags	Sand	Soap powders
Steel wool	Window cleaners	

The cost of supplies furnished to guest rooms, such as:

Bathing caps	Bottle openers	Brushes
Cork screws	Facial tissues	Flowers
Fruits	Garment bags	Guest soap
Guest stationery		

Linen

The cost of linen, used in the Rooms Department, replaced during the year: i.e., only newly bought linen should be entered here. Items included are:

Bathmats	Blankets	Pillow cases
Sheets	Towels	Shower curtains

Miscellaneous

Cost of items that are not distributable under other headings, such as:

Candles	Licenses and permits	Help wants ads for rooms employees
	Decorations	Signs in lobby and front desk
Cost of uniforms for employees of the Rooms Department	Cost of printed forms, stationery and office supplies if used by Rooms Department employees	

SCHEDULE OF SALARIES AND WAGES

Employee Classifications

In some establishments, one employee will perform several functions. Where this is the case, the approximate hours worked for each department should be recorded separately in the departmental wages records.

ROOMS DEPARTMENT

- Front Office Staff
- Housekeeping
  - Housekeeper
  - Linen Room
  - Maids
  - Housemen
- Watchman
- Service
  - Doorman
  - Bellboys

FOOD AND BEVERAGE DEPARTMENT

- Manager and Assistants
- Service
  - Headwaiter
  - Waiters (Waitresses)
  - Bartenders
- Kitchen and Steward
  - Chef
  - Cooks
  - Pantry
  - Bake shop
  - Ware washing
  - Store room
- General
  - Cashiers
  - Checkers

TELEPHONE DEPARTMENT

- Operators

STORES

Sales Clerks
Cashiers

OTHER OPERATED DEPARTMENTS

Life Guards
Guides
Recreation Instructors
Attendants

ADMINISTRATIVE AND GENERAL

Manager and Manager's Office Accounting Payroll

ADVERTISING AND SALES PROMOTION

Salesmen Clerical Workers

HEAT, LIGHT AND POWER

Engineers

REPAIRS AND MAINTENANCE

Carpenters
Plumbers
Electricians
Grounds and Landscaping

Employee Benefits

This includes the portion of payroll levies which have to be paid by the employer and amounts payable directly to employees. These are employers' contributions to social benefits. They are normally expressed as a percentage of gross wages and are regulated by provincial or federal legislation. Included are:

Canada or Quebec Pension Plan
Unemployment Insurance
Vacation Pay
Hospitalization Insurance

Food and Beverage Department

Music and Entertainment

Under this classification should be charged the following:

Mechanical music	Musicians	Piano rental
Professional entertainers	Programmes	Records
Royalties	Tuning pianos	

Laundry

Cost of laundry chargeable to Food and Beverage Department as outlined on laundry invoices.

Linen

Cost of linen used in Food and Beverage Department. Only newly bought linen should be included.

Kitchen Fuel

The cost of fuel used for cooking, such as:

Charcoal	Coal	Food warmer supplies
Gas	Steam	

Where all or the major portion of cooking is done by electricity, this use can be metered separately.

Supplies

Includes the cost of tableware, such as china, glass and silver, based on direct issues from stores or purchase records. Also included in this section are the costs of pots, pans, pitchers, trays, saucers, cocktail shakers, and cleaning supplies used in the Food and Beverage Department.

All kitchen and bar utensils such as:

Swizzle sticks	Squeezers	Strainers
Doilies	Paper napkins	Cheesecloths
Souffle cups	Filter paper	Menus and beverage lists
Pastry bag	Wax paper	Mixing spoons
Kitchen Knives	Can openers	
Skewers		

Miscellaneous

Costs of all such items as are not distributable under previous captions, such as:

Cost of printed forms, manuals, stationery and office supplies if used by employees of the Food and Beverage Department	Cost of uniforms of employees of Food and Beverage Department	Licenses and permits, where applicable to the Food and Beverage operation
Decorations in bar and dining rooms, such as flowers, plants, flags, bunting, garlands, balloons, etc.		

PART XI

GLOSSARY OF TERMS

(assembled by Laventhol, Krekstein, Horwath and Horwath)

The glossary of terms is provided to give the operator a working knowledge of technical terms and "buzz words" commonly used in the industry. Trade publications, speakers at association meetings and various professional and government agencies use these terms frequently without considering whether the general audience is aware of their meaning. We have referred to many of these terms in the preceding chapters and the glossary is meant to serve as an additional means for operators to become fully familiarized with the industry he works in, methods, procedures, terms and even "slang" expressions.

A complete glossary would be difficult to achieve. There will be some expressions which we have omitted, some will be no longer in use in a short time and new ones will be added. The terms used by the industry reflect the changes which it is undergoing and therefore it should be updated continuously.

Accounting	The preparation of financial statements and reports from information recorded in the books of accounts and from other relevant data.
Accounts receivable	Amounts due to the business from guests, customers, credit card companies, etc.
Administrative and general	A category of operating expenses which includes office expenses, legal and professional fees and similar items which are not charged to the various operated departments, but rather are included under the broader caption of Undistributed Operating Expenses, or Deductions From Income. Commonly abbreviated as A. & G.
Advertising and sales promotion	A category of operating expenses which includes the cost of all marketing activities for the entire hotel, which are not charged to the various operated departments, but are included under the broader caption of Undistributed Operating Expenses, or Deductions From Income. Commonly abbreviated as A. & P.
After-departure charge	A guest's charge (restaurant, telephone, or similar) which doesn't appear on his account when he checks out. Also known as a Late Charge.
Agency ledger	A caption for a group of trade accounts receivable due from travel agents for departed guests.
American plan	A type of rate which includes the price of the room, breakfast, luncheon and dinner. Commonly abbreviated as A.P.
Arrival and departure sheet	A form used by the room clerks to record daily each guest arrival, departure and status change.
Assets	Tangible and intangible items of value owned by the enterprise.
Auditing	The verification of the records and financial statements of an enterprise.
Available rooms	The total number of rooms in a hotel, less those permanently used for some purposes other than guest occupancy.
Average daily rate (per occupied room)	The total guest room revenue for a given period divided by the number of rooms occupied for the same period. Since it can be related to investment, this statistic is frequently used as a measure of economic feasibility.
Average room rate	$\frac{\text{Room sales during the period}}{\text{Rooms occupied during the period}}$ This is the average of room charges made for rooms sold during the period.
Balance sheet	The financial statement which shows an enterprise's financial position — its assets, liabilities and net worth items.
Bell Captain's Log	A special books used by bell captains to record services rendered by the bellmen.

Beverage sales	Revenue from the sale of alcoholic beverages, including beer and table wines, and soft drinks dispensed at the bars. Revenue from minimum charges, cover charges, room rentals, and corkage, is not included.
Beverage sales, cost of	The cost of all ingredients used to concoct the drinks included in beverage sales, after adjustments for the cost of complimentary drinks, and transfers to other departments. The beverage cost is commonly expressed as the ratio to beverage sales, as a percentage or cents per dollar sale.
Bookkeeping	The recording of transactions in the books of account.
Bottle sales	Sales of liquor by the full bottle. Also called Package Sales.
Cafeteria	A food service operation in which the customer carries his own tray and selects food from a display counter or counters.
Capital	The investment by the owners of a business.
Cash advance, guest	A cash payment by the front office cashier to a guest, or on his behalf, which is charged to his account.
Cashier's bank report	A form used daily by each cashier to record, and report to the general cashier, the exact status of hotel funds in his custody.
Cashier's depository	A receptacle, similar to a bank night depository, used to collect and safeguard the cashiers' remittance envelopes. Also called Cashier's Drop.
Cashier's due back	A temporary monetary shortage in a cashier's bank arising from an excess of cash turned in over net cash receipts. The cashier's bank is generally reimbursed by the general cashier on the following day. This condition normally results from cheque-cashing at the front desk and the requirement of cashiers to turn in all cheques each day.
Cashier's exchange	The amount in cheques received, on a given day, by the general cashier from the departmental cashiers in excess of the total net cash receipts for the day. Since all cheques should be deposited daily, the excess, or cashier's exchange, depletes the general cashiers' fund by that amount. The reimbursement is made by cashing a cheque for that amount drawn to Cashier's Exchange. These transactions should be "washed-out" through a separate general ledger control account.
Cheque Deposit register sheet	A form used by each front office cashier to record pertinent information of all cheques received, whether for payment or for cash, during each shift.
Checker	An employee, stationed in the kitchen or bar, whose primary responsibilities are to control issuance of cheques to waiters and to record all charges on guest checks.
City Club	A membership organization and facility located in an urban centre that frequently contains guest rooms, restaurant, function rooms and bar, as well as recreation facilities.

City ledger	A caption used for all trade accounts receivable other than guest accounts, including those for departed guests and local persons.
Club	A membership organization formed for a specific purpose that may be fraternal, social or recreational and may or may not be profit-motivated. (See also city club, country club, luncheon club and proprietary club.)
Commercial rate	A reduced room rate offered to commercial guests.
Commissions on credit card charges	A fee paid to credit card companies based on a contracted percentage of credit card charges accepted.
Commission, travel agents	A fee paid to travel agents for referring guests to the hotel, which is based on a percentage of total room charges.
Complimentary room	An occupied guest room for which no charge is made. This may also include those occupied by a hotel employee or officer.
Concession	A part of the hotel operation which is leased to, and operated by, another party. Common instances are: parking garage, newsstand, barber shop, and beauty salon.
Convenience food	A food item whose condition greatly simplifies preparation and portion control. It may be fresh (an egg, for example), frozen, dried or canned.
Condominium	A form of ownership of residential housing in which the individual owns his unit and the common areas are owned jointly.
Correction sheet	A form used daily to record each posting error made with the front office posting machine.
Coupon, travel agent's	A form filled out by a travel agent setting forth all pertinent information for each room reservation to avoid misunderstanding between the hotel and the guest.
Country club	A membership organization formed for recreational purposes. It is normally located in a suburban or rural area and golf is most frequently the major sports activity.
Cover charge	A fee, usually a flat amount per person, charged to patrons of a restaurant to cover the cost of music and entertainment.
Current assets	Assets that can be expected to be turned into cash in the coming year.
Current liabilities	Obligations that will have to be met in the coming year.
"D" card	A form used with the N.C.R. #42 and #2000 front office posting machines. It is used daily by the night auditor to print out the machine key totals and to reconcile the departmental charges and receipts with the list of guest accounts receivable.
Daily report	A management report prepared daily by the income auditor. The report's content varies, but will usually include: (1) source and summary of sales, (2) room statistics, (3) summary of cash

receipts, (4) bank account analysis, and (5) accounts receivable analysis.

Daily room count report — A form prepared daily by the night room clerk, from the room rack, which indicates: (1) the occupied rooms, (2) number of persons in each room, and (3) the rate charged for each room.

Day rate — A reduced rate granted for the use of a guest room during the daytime – not overnight occupancy. Specific examples are use of a guest room by someone as a display room or office, or for persons delayed at transportation terminals by weather or missed connections.

Debt equity ratio — $\dfrac{\text{Long term debt}}{\text{Owners' equity}}$
This is a measure of the investment of outsiders as compared to investment by the owners of a business.

Departmental control sheet — A form used by each minor operated department and concessionaire to record all guest charges.

Depreciation — The decline in the value of a fixed asset due to wear and tear, deterioration and obsolescence. The accounting charge made with the intention of apportioning the cost of the asset over its useful life.

Disposables — A term applied to plates, cups, saucers, and utensils that are made of material such as paper or plastic and designed for one-time use.

D.N.S. — An abbreviation for "Did Not Stay", used to indicate a registered guest who decided not to stay at the hotel.

Double (room) occupancy, percentage of — The percentage of rooms occupied by more than one person. It is computed as follows:
$$\frac{\text{Total No. of guests} - \text{Total No. of Rooms occupied}}{\text{Total No. of Rooms occupied}}$$

Drive-in — A food service operation that is convenient to persons traveling by automobile. May be classified as self-service where the patron carries his own tray, or curb-service, where patrons are served in their vehicles.

Early call sheet — A form used by the telephone switch-board operators to indicate the time requested by each guest for a "wake-up" call.

Employees' meal ticket — A card issued to each employee entitled to gratis meals in the employees' cafeteria. The card must be punched or checked for each meal served.

Employees' meals — The cost of the food provided gratis to hotel employees which is usually allocated as a departmental expense.

Engineer's log — A record, maintained by the hotel's chief engineer, of periodic meter readings, inventories and consumption of water, electricity, and fuel oil.

European plan	A type of rate which consists of the price of the room only. Commonly abbreviated as E.P.
Expense and payroll dictionary	A reference book designed to assist in hotel expense classifications in accordance with the Uniform System of Accounts for Hotels. This publication was prepared by LKH&H for the American Hotel & Motel Association.
Fast food	A generic term applied to the limited menu, quick service type of restaurant.
Feasibility study	A survey made to determine the economic advisability of a proposed development of hospitality facilities. It may also refer to a study to evaluate a proposed computer system.
Fixed assets	Assets which are used by the business over several accounting periods.
Food and beverage control	The term applied to the system of internal control over food and beverage merchandise and the revenue derived from its sale.
Food cover	A unit of food service provided to a customer. This term is not synonymous with "meal" because a food cover may comprise only a cup of coffee or a bowl of soup.
Food sales	Revenue from the sale of food served to guests. Revenue from cover charges, room service fees, and room rentals is not included.
Food sales, cost of	The cost of all ingredients used in the preparation of food served to guests, after adjustments for the cost of employees' meals and house charges. The food cost is commonly expressed as the ratio to food sales, as a percentage or cents per dollar sale.
Food service system design	The planning, layout and design of volume feeding kitchens and service areas, which generally includes menu making, staff charting, information systems, internal controls and facilities design.
Forfeited deposit	A reservation deposit which is retained by the hotel if the guest does not cancel his room reservation within the prescribed time.
Front office	The office situated in the lobby of which the main functions are: (1) control and sale of guest rooms, (2) key, mail and information service for guests, (3) keep guest accounts, render bills and receive payments, and (4) provide information to other departments.
Front office cash sheet	A form used daily by each front office cashier to record all cash receipts and disbursements, itemized as to name, room number, and amount.
Full absorption costing	The term applied to complete allocation of direct and indirect expenses to the revenue centres of a business.
Full house	A hotel with all guest rooms occupied.

Function	A pre-arranged, catered, group activity usually held in a private room or area. It may be a cocktail party only or it may be a banquet, which includes food service.
Function room	A special room which is used primarily for private parties, banquets, and meetings. Also called Banquet Room.
Function specification sheet	A form used to advise all affected departments of the requirements and other pertinent data for each function.
Funds statement	A statement of sources and uses of working capital.
General cashier	The chief or head cashier who has primary responsibility for the house banks and all cash receipts.
General cashier's daily summary	A form prepared daily by the general cashier to summarize all cash turned in by the departmental cashiers which should be reconciled with the day's bank deposit. This report should show, for each cashier and in total: (1) total cash received, (2) paid outs, (3) cash over and short, (4) due backs or exchange and (5) actual cash turned in. The cash receipts journal may be entered from this report.
Gross operating profit or loss	The net result of operations for a given period, including store rental income, before fixed charges. Commonly abbreviated as GOP.
Guest account	An itemized record of a guest's charges and credits which is maintained in the front office until departure. Also referred to as Guest Bill, Guest Folio & Guest Statement.
Guest check	The invoice presented to restaurant and bar patrons for food and beverages consumed. Also referred to as Waiter's Check or Restaurant Check.
Guest ledger	The caption used for trade accounts receivable of guests in the hotel. These accounts are generally maintained in the front office and must be up-dated throughout the day to avoid undue delay when a guest checks out.
Guest history card	A record maintained for each guest who has stayed in the hotel with a separate entry for each visit. Among other things, it may be used as a valuable reference by the reservations and credit departments.
Heat, light and power	A category of operating expenses which includes cost of utilities and is not distributed to the various operated departments, but included under the broader caption of Undistributed Operating Expenses, or Deductions from Income. Commonly abbreviated at H.L.&P.
Hotel	A structure that provides housing and frequently food and other services for persons away from home. (See also: Commercial Hotel, Motor Hotel and Resort Hotel.)
House	A synonym for hotel commonly used within the industry. Examples are: full house, house count, house profit, house banks, and house charge.

House bank	A cash fund in the custody of a cashier used for making change. The fund may also be used for disbursements and check-cashing as authorized by management.
House profit (income) or loss	The net result of operations for a given period before store rentals and fixed charges.
House laundry	A laundry operated within and by the hotel for its linens and uniforms. The house laundry expenses are accumulated as a separate department, but the total is redistributed to the departments serviced based on various formulas.
Housekeeper's report	A report prepared each morning by the housekeeper based on an inspection of each room by the maids to indicate whether a guest room was occupied or vacant the previous night.
Income audit	The daily verification by the accounting office of the sales records of the previous day.
Income statement	A summary of revenue and expenses, sometimes called the profit and loss statement.
Information rack	A visible alphabetical index of guests in the hotel, used at the telephone switchboard and in the front office to facilitate delivery of mail and messages.
Length of stay	The period of time a guest remains in a hotel.
Linen control sheet	A record kept by the housekeeper of all linen and uniforms sent to and received from the laundry to account for shortages and damages.
Liquid assets	Assets which are cash or can be readily converted to cash.
Long term liabilities	Usually written obligations to repay a certain sum of money at a specific time with interest at a stated rate. Usually liabilities falling due later than one year after the balance sheet date.
Luncheon club	A membership organization whose primary purpose is to provide facilities for private dining during the luncheon period.
Maid's report	A form used daily by each maid to report to the housekeeper the status of each guest room based on inspection. The Housekeeper's Report is prepared from all of the maid's reports.
Mail and key rack	A series of pigeon-holes, one for each guest room bearing its number, used to hold the room key and guest's mail. In addition, a series of alphabetized pigeon-holes is used to hold mail for expected guests.
Management advisory services	Those services provided by professionals that assist management in performing its functions and subfunctions in the area of finance and control.
Master account	The guest account for a particular group or function that will be paid by the sponsoring organization. (See Guest Account.)

Minimum charge	The minimum amount that each customer in a lounge or club must pay regardless of the actual charges for drinks consumed.
Modified American Plan	A type of rate which includes the price of the room, breakfast and dinner. Commonly abbreviated as M.A.P.
Motel	An establishment that provides housing for persons away from home who are travelling by automobile.
Motor hotel	A full-service hotel for motorists.
N.C.R. 42 or 2000	National Cash Register Company machines used extensively for guest ledger book-keeping. The 2000 is designed for larger and more active commercials hotels.
Night audit	The functions performed daily by the night auditor. He records all room and local telephone charges and then verifies that all guest charges are properly recorded.
Night auditor	An employee whose primary function is the night audit. His work shift is usually midnight to 8 a.m.
Occupancy, percentage of	The percentage of available rooms occupied for a given period. It is computed by dividing the number of rooms occupied for a period by the number of rooms available for the same period.
Occupancy rate	$\frac{\text{Rooms occupied during the period}}{\text{Rooms available during the period}}$
Off-season	A term used by resort hotel operators that refers to the period of the year other than the prime tourist season. The rate structures of most resort hotels are determined by the seasonal demands.
Officer's check	A special type of restaurant check used for gratis meals served to hotel staff in a public room.
On-change	A guest room which has been vacated but not yet cleaned and made up for the next guest.
Operated department	A revenue or cost centre operated and controlled by the hotel.
Operating equipment	Linen, china, glassware and silverware. Some hotels also include utensils and uniforms in this category of assets. These items are usually distinguished from fixed assets because: (1) of the relatively short life, (2) of their susceptibility to breakage and pilferage, and (3) their book values are usually based on periodic physical inventories.
Operating ledger	That section of the general ledger which includes the income and expense accounts.
Other income	Revenue from concessions or departments not operated by the hotel and other miscellaneous sources such as cash discounts and salvage.
Out-of-order	A guest room which is temporarily unsuitable for occupancy and is not to be sold. Generally used to designate rooms being

	redecorated or ones in which some maintenance work is being performed.
Over-book	Accepting reservations for more guest rooms than there are available.
Package tour	A vacation plan arranged by tour operators (wholesalers) which provides all or most of the required services, such as transportation, hotel room, and meals, for a flat amount.
Payroll and employee benefits	A category of expenses which include fringe benefits and personnel office expenses. The total of these expenses is usually redistributed to the various departments based on an established formula.
Permanent guest	A non-transient hotel guest who is on a lease, or month-to-month basis.
Permanent ware	China, glassware, silver and linen, made of materials that are intended to be reused and long-lasting.
Pre-register	To register a guest before he checks into the hotel. This is done for persons attending conventions and other organized groups expected to arrive at about the same time, to reduce delay and confusion at the registration desk.
Prime cost	The combination of cash payroll and cost of merchandise sold used as a standard guideline in food service operations.
Proprietary club	A membership organization that is designed to generate income to the owner of the facilities.
Public space	Any area in the hotel which generally is made accessible to the general public, including dining rooms, bars, lobby, and function rooms.
Ready food	A derivation of the phrase "table-ready foods", also called convenience foods.
Receiving clerk's daily report	A report prepared daily by the receiving clerk listing all merchandise received showing cost distribution.
Registration card	A form used by an arriving guest to record his name and address which the room clerk completes as to room number, rate and length of stay. Some form of guest registration is required by law in each province.
Repairs and maintenance	A category of operating expenses which includes the cost of maintenance of the entire plant and all equipment, but which is not charged to the various operated departments, but included under the broader caption of Undistributed Operating Expenses, or Deductions From Income, commonly abbreviated as R & M.
Reservation deposit	An advance payment required to obtain a confirmed guest room or function room reservation.

Resort hotel	A hotel which caters mainly to vacationers or tourists, usually offering more recreational facilities than other hotels.
Restaurant	A place where meals are served to the public.
Restaurant cashier's sheet	A form used by each cashier in the restaurant on which are recorded all guest checks used. Separate columns are used for food sales, beverage sales, cover charges, and tips to facilitate summarization.
Room change slip	A form filled out by the room clerk whenever there is a change in the status of a guest room other than a new registration or a vacated room.
Room rack	A special rack with drop-pockets, one for each guest room bearing the corresponding room number. Its purpose is to provide a visible index of the exact status of each guest room at all times.
Room rack card	A paper card or slip inserted in the appropriate pocket of the room rack when a room is sold. The card should show: (1) room number, (2) guest's name, (3) city of residence, (4) number of persons occupying the room, (5) daily rate, and (6) arrival and expected departure dates.
Room rate and inventory	A card for each guest room which remains permanently in the room rack. It should show the fixed rate structure, bed capacity and other pertinent information.
Room service	Food or beverages served in a guest's room.
Rooming slip	A form filled out by the room clerk for each registered guest showing name, room number and rate. A copy is given to the guest to avoid any subsequent dispute regarding room changes. Other copies are sent to the mail and information desk and telephone switchboard.
Skipper	A guest who departs without checking out at the front desk and paying his bill.
Speciality restaurant	A food service operation that has a theme that is carried out in the menu, service and decor. The menu is also frequently limited.
Standard cost	A food control system designed to produce a potential cost based upon the use of standard recipes.
Store rentals	Revenue derived from the rental of space, usually on the ground level with street access, for businesses which are not ordinarily a part of usual hotel service.
Table-service restaurant	A food service operation in which patrons are served only at tables.
Telephone traffic sheet	A form used by the telephone switchboard operators to record all long-distance telephone calls.

Terminal Guest	A person who has reached his destination, whose length of stay will depend upon the purpose of his trip.
Trade advertising contract	An agreement whereby the hotel agrees to purchase advertising space or time in exchange for hotel accommodations and, possibly, restaurant service.
Transcript	The daily recapitulation of the guest ledger, prepared by the night auditor in a manual system. Serves the same purpose as the "D" Card.
Transient guest	A person who is en route to another place and stays in the hotel for only one night.
Undistributed	A group of operating expenses which are not distributed to the operated departments. The general captions for those expenses are: (1) Administrative and General, (2) Advertising and Sales Promotion, (3) Heat, Light and Power, and (4) Repairs and Maintenance. Also referred to as Deductions from Income.
Uniform System of Accounts for Hotels	A manual which outlines and describes a system of uniform classification of accounts for hotels which has been adopted by the American Hotel and Motel Association.
Waiter's signature sheet	A form used by the food checker or cashier to control the issuance of guest checks to the waiters. Each waiter must sign for checks received (identified by number) and must account for their use.
Walk-in	A guest who arrives without a reservation.
Working capital	The difference between current assets and current liabilities.

ACCOUNTING MANUAL
FOR
ROOMS ONLY ACCOMMODATION ESTABLISHMENTS

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INTRODUCTION

The accounting system described on the following pages has been designed for the operator of an accommodation establishment which offers guest accommodations, but no other amenities. In practice, virtually every facility designed to serve the needs of the traveller will provide some other services, such as vending machines for food, drink and personal articles, and telephone service may be made available. Because such a high proportion of the total revenue of such a property is derived from rooms, as a practical matter the operation requires accounting for only the one profit centre, with incidental revenue from other sources accounted for in the simplest way possible.

The system described on the following pages consists of two forms, which will allow any small hotel operator to adequately control his cash and compare his operating results with those of other operators, his own expectations and the results of preceding months and years.

	TODAY	MONTH TO DATE
Total No. of Rooms Sold		
Total No. of Guests Registered		
% Occupancy		
% Double Occupancy		
Average Room Rate		

FORM A-1

DATE ______ MONTH ______ 197__

DAILY SUMMARY OF REVENUE

ROOM	NO. OF GUESTS	BALANCE CARRIED FORWARD	DAILY RATE	TAX	TELEPHONE	OTHER CHARGES TO ROOM	TOTAL CHARGES	RECEIPTS		NEW BALANCE CARRIED FORWARD	COMMENTS
								CASH	CREDIT		

DAILY SUMMARY OF REVENUE (Form A-1)

The Summary should be completed daily, to provide details of all sales transactions, record all cash received and control accounts which are due from guests.

The form has been presented on the assumption that the operator has 30 rooms in his establishment; we believe it is best to pre-record the room numbers in the first column, but an option would be to manually enter room numbers as guests check in. If the latter method is used, and only ten rooms are sold, only the first ten lines of the form would be needed. We support the pre-record approach, as we believe it will reduce the possibility of clerical errors.

This revenue control system does not provide the guest with a bill, and as most commercial travellers require a receipt, we recommend that operators purchase a pre-numbered form which provides a permanent copy of each receipt in a bound book which the operator retains.

The Summary is divided into two parts; on the left hand side, all charges made to guests during the business day are recorded. On the right, details as to the settlement of the charges are recorded. For each room that is occupied, there must be entries on both sides of the card; if rooms are provided on a complimentary basis, the details should be recorded with the daily rate shown as nil.

An illustration of the use of this form is provided on the following pages:

DAILY SUMMARY OF REVENUE (Illustration of use)

The illustration below assumes that no rooms were occupied the preceding night.

Transactions

Two rooms are sold, one double and one single, with rates of $18.00 and $14.00 respectively. The occupant of Room #1 placed a long distance telephone call, while the guest in Room #2 had a delivery from a local restaurant paid for by the front office.

Room	Number of Guests	Balance Carried Forward	Daily Rate	Tax	Telephone	Other Charges to Room	Total Charges	Cash Receipts	Credit Receipts	New Balance Forward
1	2	-0-	18.00	.90	7.40		26.30			26.30
2	1	-0-	14.00	.70		4.80	19.50			19.50

Before retiring, the owner balanced the Summary for the day. Many operators would prefer to complete the Summary at the beginning of the working day following. This is purely a matter of personal preference, and could even change during the course of a given week, according to the owner's work schedule.

In addition to balancing all the amounts owing by his guests to the "new balance forward" column, the owner completed the statistical data on the reverse side of the form.

The next day both guests check-out. Before leaving, the guest in Room #2 makes a local phone call for which the establishment charges 30¢. The guest in Room #1 pays cash, the guest in Room #2 pays by credit card.

Room	Number of Guests	Balance Carried Forward	Daily Rate	Tax	Telephone	Other Charges to Room	Total Charges	Cash Receipts	Credit Receipts	New Balance Forward
1	2	26.30					26.30	26.30		
2	1 / 1	19.50	13.00	.65	-.30 / -.90		19.80 / 14.55		19.80	14.55

During the day, Room #2 is occupied again, this time by a repeat customer who is granted a special discounted rate. The guest makes three local phone calls.

At the end of the day the owner again balances the Summary.

Note: If during one day, a room is vacated by one guest and again occupied by another (see Room #2), only the entry in the lower diagonal field is used to compute the daily statistics.

Computation of Statistics (See Part IV)

$$\% \text{ occupancy} = \frac{\text{No. of rooms occupied} \times 100}{\text{No. of rooms available}}$$

$$\% \text{ double occupancy} = \frac{\text{No. of guests} - \text{No. of rooms occupied} \times 100}{\text{No. of rooms occupied}}$$

$$\text{Average Room rate} = \frac{\text{Room Sales (Total of Daily Rate Column)}}{\text{No. of rooms occupied}}$$

MONTH_________197__

STATEMENT OF EXPENSES

DAY	DESCRIPTION	AMOUNT	PAID CASH	PAID CHEQUE #	WAGES	LAUNDRY	LINEN	SUPPLIES AND MISC.	TELE-PHONE	ADMIN. & GEN.	ADV. & SALES PROM.	HEAT LIGHT POWER	REPAIRS & MAINT.	OTHER DETAIL	OTHER AMOUNT
1	Hydro Comm.	98.50		401								98.50			
2	Klatch Coffee	8.40	x					8.40							
3	Dutch Laundry	48.10		402		48.10					75.00				
3	Neon Bill-boards Inc.	75.00		403									12.80		
3	Ajax Hardware	12.80	x												
4	Friendly Bank – Loan	8000.00		404										Princpl.	8000.00
4	– Int.	110.00	x											Int.	110.00
5	Royal Trust	793.00		405										Princpl.	701.00
5	City of Toronto	490.00												Int. '74 taxes	92.00 490.00
5	Safeway Ins. Co.	140.00												Fire Insurance	140.00
5	Sturdy Fence Inc.	680.00												Fence for Pool	680.00
28	Sheets to Wind	36.00		441			36.00								
29	Telephone Co.	12.80		442					12.80						
30	Dutch Laundry	52.50		443		52.50									
31	Glassware supply	18.40		444				18.40							
TOTAL		10575.50				100.60	36.00	26.80	12.80		75.00	98.50	12.80		10213.00

STATEMENT OF EXPENSES (A-2)

The Daily Summary of Revenue controls the cash coming into the operation; the Statement of Expenses is used to record outgoing cash or cheques. In using the system, it is assumed that most suppliers are paid promptly after a debt is incurred, and that most of the payments made are for expenses of the business rather than for additions to the building and furnishings.

Expenditures should be recorded on a daily basis, with the date indicated, showing the name of the supplier, a brief description of the nature of the item purchased, the amount of the transaction and an indication as to whether payment was made by cash or by cheque. The right hand side of the form allocates expenditures in accordance with the "Uniform System of Accounts for Hotels-Motels", which is discussed at length in this manual under the heading "Classification of Expenses: Rooms Department".

A detailed illustration of the use of this form appears on the following page:

STATEMENT OF EXPENSES (Illustration of Use)

The example illustrates a number of routine transactions typical of a Canadian operation. If more transactions take place than there are lines provided for on the form a second form A-2 for the month should be opened. The first line of the second form should read under description "subtotal" and then the subtotal of Page 1 should be entered under each account classification. Our example assumes that there are sufficient lines for all monthly transactions.

The first five and last four items in the illustration are for routine purchases. A few require some explanation:

Bank loan in accordance with the agreement with his bank Manager, the owner finances his losses through the winter months by borrowing funds from his bank, with the understanding that the amount is paid off through the summer. In completing his bank statement reconciliation the previous month, the owner determined that he could repay $8,000 of his bank loan, which he recorded as in the illustration. The bank interest is charged by a debit memo from the bank each month, and after checking the interest calculation, the owner recorded the interest as if it were paid out in cash, shown immediately below the $8,000 loan repayment.

Mortgage repayment - as with most home owners, the operator financed his building through a first mortgage, which he is repaying monthly at a fixed sum, with this sum covering both principal and interest; the balance between these two items changes each month, in accordance with a computer printout which the owner obtained from his mortgage company. The owner recorded his monthly payment of $793.00 as shown in the illustration. The next month, the same amount will be payable, but a slightly greater portion of the payment would be credited to principal accumulation.

Municipal taxes – the owner is billed quarterly for all municipal services other than water, and because a detailed calculation would be required to determine the effect on the profit of a given month, this amount is shown in the "other payments" column.

Fire insurance – payment of this item is due on a semi-annual basis, as negotiated with his agent. For the same reason as explained under "municipal taxes" above, this item is shown in the "other payments" column.

Steel fence – just prior to the busy summer season, the owner had installed a small wading pool. The municipal authorities advised him that he would have to enclose the pool with a fence, so this purchase was recorded as shown in the illustration.

ACCOUNTING MANUAL
FOR
FULL SERVICE ACCOMMODATION ESTABLISHMENTS

INTRODUCTION

This manual has been prepared with a view to providing an accounting system for the operators of smaller accommodation facilities, who neither need nor can usually afford costly mechanical accounting equipment for bookkeeping purposes. In its design flexibility was the prime consideration, to allow easy adaptation of the system to the variety of types of organization in Canada, which offer a diverse product and operate under a variety of marketing philosophies.

One basic premise which is applicable to virtually every business is that improved management information and operational control is gained through splitting the various key components of the business for accounting purposes. The normal way to accomplish this is to separately account for the business activities on the basis of a "revenue centre" concept; for example, recognition that the operation of a pub offers many characteristics which are at variance with the needs of the rooms department.

The "Uniform System of Accounts for Hotels" which was devised in 1926 and has been modified in line with changes within the hospitality industry, recognizes the importance of handling hotel accounts on a departmental basis; certain types of costs (e.g., the general manager's salary) can not be sensibly allocated as between food, beverage and rooms departments, and for this reason, such costs are treated as "Undistributed Operating Expenses". To the extent possible, costs which are incurred and which can be directly attributed to the operation of one department, are grouped within that department. With many accommodation operators following the "Uniform System", operators are enabled to compare the results of their operation with others in the industry. Use of this manual results in accounts kept in accordance with the "Uniform System".

FORM B-1

GUEST ACCOUNT CARD

FOLIO NUMBER ____________
FROM ____________
TO ____________
NAME ____________
ROOM NUMBER ____________
RATE ____________
ADDRESS ____________
____
COMPANY NAME ____________
DATE ____________

NUMBER IN PARTY ____________
CAR LICENSE ____________
DATE OF ARRIVAL ____________
DATE OF DEPARTURE ____________

1 BALANCE FORWARD

2 ROOM Amount
Tax

3 TELEPHONE Local
Long Distance

4 FOOD Coffee Shop
Dining Room

5 BEVERAGE Lounge
Dining Room

6 LAUNDREY
7 VALET
8 RECREATION
9 STORES
10 OTHER
11
12
13 PAID OUT
14 CHARGES TODAY
15 ADVANCE DEPOSIT
16 ALLOWANCES
17 CASH PAYMENT
18 CITY LEDGER
19 BALANCE FORWARD

GUEST ACCOUNT CARD (Form B-1)

It is the norm throughout the world to have the guest sign a registration card on arrival. The information on this card is used by many operators to obtain informative statistical data as to the guest origin, mode of arrival and other matters of interest. In most parts of the world, it is a legal requirement to obtain this data.

In larger hotels, the information from the registration card is placed on a folio, which serves as the guest account throughout his stay. For the needs of the smaller operator, another format offers some advantages. The design of this form is shown opposite.

Hospitality enterprises are among the few business establishments which routinely extend instant credit to their customers. There are instances where the guest has to prepay one night upon arrival, but in most cases, the guest is allowed to use the services of the hotel without immediately paying for them. The charges which result from the use of the facilities are recorded on the "Guest Account Card" which should be opened as soon as the guest checks in.

As they constitute money which is to be received at a later date, normally upon departure of the guest, all guest account cards are classified as "accounts receivable".

The Guest Account Card is pre-numbered. The forms should be controlled and accounted for by the manager. Failure to control the forms could result in dishonest front desk staff selling rooms, collecting the account, pocketing the receipts and destroying the card.

While the guest stays in the hotel, the cards form the "guest ledger" and are referred to as such throughout this manual. On checkout, if the account is not settled in cash, it is reclassified as "accounts receivable-city ledger", where it remains until settled by a credit card company, personal credit arrangement made with the management, or travel agency payment. The terms "guest" and "city" ledger are peculiar to the hospitality industry, and not found in the account classifications of other businesses.

To initiate the card, the details at the top are copied from the registration card. (It is important to obtain a signature from the guest on the registration card so that any charges signed for in other parts of the property can be verified.)

The various revenue centres within the operation are shown in the column at the left. The form is designed to last for a stay of up to seven days, with the charges from each revenue centre recorded on a daily basis on the appropriate line. These charges are transcribed from guest checks, invoices for laundry or valet services, etc. which the various departments within the hotel would turn into the front office for recording to the guest's account. It is important that the entries on the guest account card be carefully transcribed from the source data.

At the end of each day, all charges are totalled and recorded as "charges today". Below the charges are deductions reflecting advance deposits, allowances made to the guest, cash payments from the guest, which net to the balance owing by the guest (i.e., city ledger). It is important that the charges for the day show only the items charged during that day, *excluding* any balance forward.

On departure of a guest, the account is closed; if the balance is paid in cash, the amount is recorded in the "daily cash record", as described later in this manual. If settled through any credit arrangement, the account is transferred by using the "city ledger journal" (Form B-18) described in this manual.

If a guest "skips" (leaves without paying his bill), the balance should be transferred to the 'city ledger journal" until such time as collection is effected or recovery efforts prove fruitless.

When a guest has left the establishment, it is essential that the Guest Account Card shows a zero on the "balance forward" line.

STATEMENT OF REVENUE – ROOMS DEPT.

MONTH_____ 197__

DAY	NO. OF ROOMS AVAILABLE	NO. OF ROOMS SOLD	NO. OF GUESTS REGISTERED	GUEST ROOM REVENUE	TAX	FUNCTION ROOM REVENUE	TAX
1							
2							
3							
28							
29							
30							
31							
TOTAL							
ALLOWANCES							
NET TOTAL							

STATISTICS

	This Month	Same Month Last Year
% Occupancy		
% Double Occupancy		
Average Rate Per Occupied Room		

STATEMENT OF REVENUE
ROOMS DEPARTMENT (Form B-2)

Room sales consist of revenue derived from rooms, apartments or cottages rented or leased for part-day occupancy, a full day, a week, a month or longer. If charges are made separately for maid or linen services, they should also be included on the schedule, with the detail of the amounts shown in separate columns.

Where hotels quote rates on an American or Modified American Plan, wherein the room rate includes three or two meals (respectively) an allocation should be made of the sales figure between the room and food departments to ensure that each is credited with an equitable share.

To complete the form, the following steps are necessary:

1. Enter number of rooms in the house in "rooms available" column,

   number of rooms sold in "rooms sold" column, and

   number of guests registered in "guests registered" column.

2. Enter guest room revenue in "room revenue" column. (Source: Daily totals of line 2 on "Guest Account Cards").

3. Enter sales tax if applicable in the province in which you operate. (Source: Same as point 2 above)

4. If public rooms have been rented during the day, enter amount and any applicable tax in "function room revenue" and "tax" columns (Statement of Revenue - Rooms Department).

At the end of each month, each column should be added to arrive at the total revenue for the month.

To complete the "statistics" section of the statement, the following calculations must be made:

Average occupancy (percentage): $\dfrac{\text{Number of rooms occupied in period}}{\text{Number of rooms available in period}} \times 100$

Average rate per occupied room: $\dfrac{\text{Total room revenues in period}}{\text{Number of rooms occupied in period}}$

Although there are many other ratios that could be calculated from the Statement of Revenue - Rooms Department, the above are considered the key figures in the hospitality industry, and should be completed each month. With these two figures, an operator can compare his operation with statistical data prepared by Statistics Canada, industry associations, provincial government releases, and data published by private concerns. Reference can be made to Part IV for more detailed comment on statistics.

Industry statistics are only meaningful if prepared and analyzed reasonably frequently. At the very least, such information should be available monthly, although many managers, particularly seasonal operators, feel that weekly data gives them improved knowledge of the operation. If it is done daily (the calculations are not difficult, and the average occupancy need be calculated only once for any given number of rooms sold, since the rooms available should stay the same), it would enable the operator to determine whether there were any patterns or trends within a weekly period.

Another helpful statistic is the double occupancy percentage:

$$\frac{\text{No. of guests in period} - \text{No. of rooms occupied in period}}{\text{No. of rooms occupied in period}} \times 100$$

As the average rate per occupied room is greatly influenced by the number of people staying in one room, this ratio is another useful tool in analyzing the operation.

MONTH_____197__

STATEMENT OF REVENUE – FOOD DEPARTMENT

	BREAKFAST			LUNCH			DINNER			TOTAL					
DATE	COVERS	AMOUNT	TAX	COVERS	AMOUNT	TAX	COVERS	AMOUNT	TAX	COVERS	AMOUNT	TAX	RECEIPTS	RECEIPTS	TO ROOM
1															
2															
3															
28															
29															
30															
31															
TOTAL															
ALLOWANCES															
NET TOTAL															

STATEMENT OF REVENUE –
FOOD DEPARTMENT (Form B-3)

Large hotel properties find it advantageous to record food revenues with break-downs according to meal periods and full details for each outlet; but in smaller operations, it should be sufficient to have details of the covers served according to each meal period. Meal periods require a somewhat arbitrary break-down, with 11:00 a.m. and 3:00 p.m. marking the break point. In operations with modern cash registers, such break-downs of revenue are easily obtained through taking an "X" total on the register. To obtain covers, the cashier or hostess must total the details typically provided on the "guest check" form.

Control over guest checks is essential to proper supervision of the operation; pre-numbered checks are necessary, with adequate physical control before and after issuance to service staff required. It is normal to indicate the name of the server, as a routine audit procedure should be implemented to ensure that each of the service staff is careful in recording menu prices.

Some coffee shop operators feel that inclusion of small transactions (e.g., coffee or soft drink patrons) are unnecessary, and arbitrarily eliminate all covers of less than 50¢ from the cover calculation.

Many managers find it useful to occasionally scan cash register tapes, as a large number of small charges would suggest that coffee shop seats may be taken up at key periods of the day by people loitering over a coffee break, to the disadvantage of his guests who may wish a full meal.

Instructions on completion of the form follow:

1. Enter amounts, applicable tax and covers served for each meal period in "breakfast", "lunch" and "dinner" columns.

2. At the end of each day add "breakfast", "lunch" and "dinner" columns and enter amount in "total covers" and "total amount" columns.

3. "Cash receipts", "credit receipts" and "charged to room" columns record the mode of payment and the daily totals of these columns should equal the "total amount" and "Provincial Sales Tax" columns. (DISREGARD ANY CASH OVER OR SHORTAGE).

4. The sources for this information are guest checks turned in by the dining room. In cases where the dining room has a separate cashier, the source will be the dining room cashier's "Daily Cash Record", which he/she hands into the front office cashier. In most cases the format of this record is printed on the envelopes in which the money is deposited; a sample form is shown below.

DINING ROOM CASH RECORD

Meal Period	....
Covers Served	
Revenue	....
Tax	....
Total	....
Cash	....
Credit	....
Room Charge	....
Total	....
Cash over (short)	

With the exception of the first two items on this Cash Record, all the details on this form are essential to proper cash control and the requirements of sales tax departments in all provinces except Alberta.

A reasonable split of the daily revenue by operators offering full or Modified American Plans should be completed each day.

MONTH_____197__

STATEMENT OF REVENUE – BEVERAGE DEPT.

DATE	AMOUNT					PROVINCIAL SALES TAX TOTAL	RECEIPTS		CHARGED TO ROOMS	TOTAL
	BEER	LIQUOR	WINE	MINERALS	TOTAL SALES		CASH	CREDIT		
1										
2										
3										
28										
29										
30										
31										
TOTAL										
ALLOWANCES										
NET TOTAL										

STATEMENT OF REVENUE –
BEVERAGE DEPARTMENT (Form B-4)

Generally speaking, it is a requirement of the liquor control group in each province that licensed vendors account separately for spirits, beer and wine. The operator would normally desire the same basis for splitting of sales, as they are an appropriate grouping through which to control costs, in that the margin of profit usually differs among the three groups.

It is a question of marketing policy as to whether or not minerals sold as mix are charged for, but even when offered free with drinks, occasionally a soft drink is sold as such, and normally would be charged for.

Data for proper completion of the form requires at least five department keys on the cash register. Completion of the form is a simple matter, involving only the reading of cash register tapes.

If no cash register is used, sales transactions during the day should be recorded on a worksheet with detailed listings of items sold.

The sum of "total amount" and "provincial sales tax" should equal the total "cash receipts", "credit receipts" and "charged to rooms".

Some beverage establishments charge for sundry items such as peanuts, potato chips, etc. The income from these sales should be recorded on Form B-5. If these items are provided free of charge, no revenue is recorded.

Note: The expenses of purchase of these items are handled differently based on whether or not charged for.

MONTH____197___

STATEMENT OF REVENUES – OTHER OPERATED DEPARTMENTS

DATE	TELEPHONE DEPARTMENT LOCAL	TELEPHONE DEPARTMENT LONG DISTANCE	LAUNDRY	VALET	RECREATION	STORES	OTHER	OTHER	RECEIPTS CASH	RECEIPTS CREDIT	CHARGED TO ROOMS
1											
2											
3											
28											
29											
30											
31											
TOTAL											
ALLOWANCES											
NET TOTAL											

STATEMENT OF REVENUE –
OTHER OPERATED DEPARTMENTS (Form B-5)

The column headings on this form correspond with the Revenue Department classifications shown on the "Guest Account Card", described previously. In the illustration, we have headed a column "recreation" and left a miscellaneous column headed "other revenue" for revenues from any other services offered by the facility. Each operator must make a decision on whether or not a given item of revenue is sufficiently important to be accounted for separately; as a rule of thumb, it might be suggested that any revenue centre which generates 10% of the gross revenues of a property requires a separate accounting. In other cases, for example a golf course, the green fees charged may be nominal or even nil, while the cost of operating the course would be substantial. In these circumstances it would be appropriate to treat the golf course as a separate revenue centre (in this case expense centre would be more appropriate terminology), even though the revenues may not represent as much as 10% of the gross for the entire operation.

While many operators will provide only one or two additional services within their operation, many seasonal hospitality enterprises offer a variety of recreation facilities which are available for house guests and local residents alike. In many cases the success of a seasonal operation depends on its recreation facilities and we suggest that appropriate care be taken in classifying these revenue services and in recording the allocable expenses. In instances where no charge is made for the use of a recreation facility (e.g., swimming pool), the expenses incurred in its upkeep should be recorded under "Repairs and Maintenance Expenses".

Specifically classified in the form is income from guest laundry and valet service and charges for recreational facilities, such as boat rental, motor rental, guide fees, etc. Also included is the rental income from lobby retail space, taxi services, telephones, show cases, and the revenue derived from vending machines.

MONTH____197__

DAILY GUEST LEDGER PROOF

DATE	CHARGES TO ROOM: ROOMS DEPARTMENT (B-2)	FOOD DEPARTMENT (B-3)	BEVERAGE DEPARTMENT (B-4)	OTHER DEPARTMENT (B-5)	TOTAL	PAID-OUT	GUEST LEDGERS: TOTAL CHARGES TODAY ALL GUEST LEDGERS
1							
2							
3							
28							
29							
30							
31							
TOTAL							

DAILY GUEST LEDGER PROOF (Form B-6)

Failure to record all charges on a guest account card or incorrect postings cause inconvenience to guests and may result in lost revenue due to inability to collect unrecorded or late recorded guest charges. Schedule B-6 is used to ensure that all charges were recorded to an account. By totaling all charges to rooms as recorded on the individual departmental vouchers and comparing that figure with the total recorded on all guest account cards, it is possible to discover and correct discrepancies before inconvenience or loss occur.

FORM B-7

MONTH 197

PURCHASES JOURNAL

				DISTRIBUTION									
DATE	SUPPLIER	INVOICE NO.	A/PAY	ROOMS DEPT.	FOOD DEPT.	BEVERAGE DEPT.	OTHER DEPTS.	ADMIN. & GENERAL	ADV. & SALES PROMOTION	HEAT, LIGHT AND POWER	REPAIR & MAINT.	OTHER AMOUNT	OTHER EXPLANATION

TOTAL

PURCHASES JOURNAL (Form B-7)

As most accommodation establishments have established a line of credit with various suppliers, there is a time lapse between the receipt and use of supplies and actual payment for them. In order to achieve proper accounting, it is essential that within each accounting period, the expenses in connection with generating the sales revenues are recorded as expenses of the same period. When items are paid for on a C.O.D. basis, this matching is achieved; where credit is used, it is necessary to record the expense in the Purchases Journal. In addition to providing proper accounting, recording of purchases in such a record facilitates office organization.

The Purchases Journal is used for recording all liabilities owing by the business other than for wages and those items which are settled immediately by cash or cheque. To complete the Purchases Journal:

1. Enter date cost incurred in "date" column.
2. Indicate name of supplier in "supplier" column.
3. Enter amount of purchase in "accounts payable" column.
4. Indicate in "Distribution" columns on which statement of expense this purchase has to be distributed.

Note: It is possible that on one invoice there are purchases which have to be distributed on two or more expense statements. See example on the following page.

Example:

Sparkle Laundry sends an invoice for $19.00. It reads as follows:

20	Tablecloths	$10.00
100	Bed Sheets	9.00
	Total	$19.00

Enter the total amount in "accounts payable" column and $10.00 in "food department" column and $9.00 in "rooms department" column.

Comment is made in the text covering "Cash Disbursements Journal" on a system to control the paper-work.

FORM B 8

MONTH____197___

CASH DISBURSEMENTS JOURNAL

						DISTRIBUTION					
										OTHER	
DATE	SUPPLIER	INVOICE NO.	CHEQUE NO.	AMOUNT	CASH DISCOUNT	A/PAY	ROOMS DEPT.	FOOD DEPT.	BEVERAGE DEPT.	AMOUNT	EXPLANATION

TOTAL

CASH DISBURSEMENTS JOURNAL (Form B-8)

Most large businesses pay virtually all their accounts by cheque. Use of cheques allows easier recording of transactions, and establishes proof of payment so that receipts are not required.

The Cash Disbursements Journal (sometimes called a cashbook) is used to record the issuance of cheques. Cheques may be issued for payment of accounts payable which have already been recorded in the Purchases Journal; in such cases, the distribution of the amount is merely to "accounts payable".

For payment of items by cheque which are on a C.O.D. basis, the distribution should be made immediately in the same way as if it were recorded in the Purchases Journal.

To complete entries in the journal, the following entries should be made:

1. Date payment was made in "date" column.
2. Name of person or company the cheque was made out to in "supplier" column.
3. For reference purposes, record supplier's invoice number in the column so headed.
4. Number of cheque in "cheque #" column.
5. Amount of *cheque* (NOT invoice total) in "amount" column.
6. Cash discount (if taken) in "cash discount" column.
7. Amount of *invoice* in "distribution" columns.

Note: "amount" column plus "cash discount" column equals "distribution" columns.

One method of organizing the accounts payable in a smaller operation is to use a "tickler" folder with 31 pockets, for each day of the month. As soon as a supplier's invoice is received, it should be examined for:

1. Whether or not it is in accordance with the order, including quantities, price, delivery terms, etc.
2. Whether mathematical calculations and additions have been properly done.
3. Cash discount payment terms, if any.

Before approving the bill for payment, the manager must ensure that the goods were in fact received, in good condition. At that point, file the invoice in the appropriate "day" of the folder, ensuring that the payment date chosen would allow any offered cash discount to be taken.

After payment has been made, file the invoices alphabetically according to the name of the supplier.

Careful attention should be paid to ensure all cash discounts offered are taken advantage of. A two percent discount for payment within 20 days is equivalent to a yearly return of more than 36% at current interest rates.

Any payments of municipal taxes, payments of principal and interest on loans and purchases of capital good assets should also be recorded on this form in the column "other".

Be sure to give a detailed description of these transactions and record them on the appropriate "C-" forms as explained in the following section. Exclude these payments when completing the balance procedure on Form B-15, "Monthly Balancing Procedure".

MONTH______197____

PETTY CASH JOURNAL

DATE	SUPPLIER	VOUCHER NO.	AMOUNT	DISTRIBUTION									
				ROOMS DEPT.	FOOD DEPT.	BEVERAGE DEPT.	OTHER DEPT.	ADMIN. & GENERAL	ADV. $ SALES PROMOTION	HEAT, LIGHT AND POWER	REPAIRS & MAINT.	AMOUNT	EXPLANATION
TOTAL													

PETTY CASH JOURNAL (Form B-9)

All purchases made and paid for immediately in cash should be recorded on this Journal. Otherwise it functions the same way as the Purchases Journal.

Petty cash payments should only be made out of one cash float, normally the front office cash. Upon payment, a voucher should be made out detailing the name of the vendor, article bought and amount of purchase. This voucher should be signed by an authorized person only. Control over such vouchers should be the same as over bank cheques. The person carrying it has the right to receive the amount specified on it from the cashiers. Vouchers should therefore be numbered consecutively and be made out in duplicate, one copy to remain with the cashier, and the other to be attached to the invoice.

MONTH___197____

STATEMENT OF EXPENSES – ROOMS DEPARTMENT

DATE	DESCRIPTION	REFERENCE	AMOUNT	WAGES	EMPLOYEE BENEFITS	LAUNDRY	LINEN	SUPPLIES	MISCELLANEOUS
TOTAL									

MONTH______197___

STATEMENT OF EXPENSES – FOOD AND BEVERAGE DEPARTMENT

DATE	REFERENCE	AMOUNT	COST OF FOOD CONSUMED	COST OF BEV. CONSUMED	WAGES	EMPLOYEE BENEFITS	MUSIC AND ENTERTAINMENT	LAUNDRY	LINEN	KITCHEN FUEL	SUPPLIES	MISC.
1												
2												
3												
28												
29												
30												
31												
TOTAL												

FORM B 12

MONTH________197___

STATEMENT OF EXPENSES – OTHER OPERATED DEPARTMENTS

DAY	REFERENCE	TELEPHONE	GUEST LAUNDRY	VALET	RECREATION	STORES	OTHER	OTHER
1								
2								
3								
28								
29								
30								
31								
TOTAL								

DEPARTMENTAL STATEMENTS OF EXPENSES

Introduction

On completion of the various journals in which the expenses of operation are recorded, it is necessary to summarize them to permit completion of a Operating Statement. To accomplish an orderly summarization of charges, departmental schedules of expenses are prepared as follows:

Statement of Expenses — Rooms Department	— B-10
Statement of Expenses — Food and Beverage Department	— B-11
Statement of Expenses — Other Operated Departments	— B-12
Statement of Expenses — Administrative and General	— B-13
Statement of other Undistributed Expenses	— B-14

The expenses on the statements are summarized in accordance with the accounting distribution as set up in the Purchases, Cash Disbursements and Wages Journals. These codes are set up in accordance with the format recommended in the "Uniform System of Accounts for Hotels". Reference should be made to the "Classification of Expenses" section of this manual to ensure that accounting distributions are in accordance with the accounting treatment used by others in the hospitality industry. One of the prime purposes of this manual is to achieve uniformity in the reporting of operating results, so that strict adherence to the recommended classifications is essential.

MONTH____________197___

STATEMENT OF ADMINISTRATION AND GENERAL EXPENSES

DATE	REFERENCE	AMOUNT	WAGES	EMPLOYEE BENEFITS	LEGAL & AUDITING	CREDIT CARD COMMISSIONS	BAD DEBTS	INSURANCE	MANAGE MENT OR FRANCHISE FEE	LICENSES, PERMITS TAXES	OTHER EXPENSES
TOTAL											

UNDISTRIBUTED EXPENSES

Undistributed Expenses are classified by the "Uniform System of Accounts" as all those overhead expenses which are not allocated (distributed to the various operated departments - Rooms, Food, Beverage, etc.).

They are generally classified into four categories:

(a) Administrative and General Expenses

(b) Advertising and Sales Promotion

(c) Heat, Light and Power Expenses

(d) Repairs and Maintenance Expenses

These accounts are handled the same way as the Departmental Statements of Expenses. A detailed list of what classification of expenses are included is presented below:

A. Administrative and General Expenses

1. Salaries

For classification of employees included in this group see "Salaries and Wages – Classification of Employees".

2. Employee Benefits

This account represents the proportion of employee benefits expense properly applicable to this department.

3. Legal and Auditing

The cost of public accountants' and legal services should be charged to this account. Legal fees for collection of accounts should be charged to "other expenses".

4. Credit Card Commission

The commission paid to credit card companies should be cgarged to this account.

5. Bad Debts

Accounts receivable that cannot be collected should be charged to this account.

6. Insurance General

All insurance premiums exclusive of workmen's compensation insurance (employee benefits), and fire insurance on buildings and contents (taxes and insurance), should be charged to this account, including the following:

Boiler liability, burglary, fraud, hold-up, life insurance, lost and damaged goods, property damage, public liability, products liability, employee fidelity.

7. Management or Franchise Fees

Fees charged by management organizations for management service or supervision should be charged to this account.

FORM B-14

MONTH________197___

STATEMENT OF OTHER UNDISTRIBUTED EXPENSES

DAY	DESCRIPTION	REFERENCE	AMOUNT	ADVERTISING AND SALES PROMOTION	HEAT, LIGHT AND POWER	REPAIRS AND MAINTENANCE
TOTAL						

8. Licenses and Permits

This account should be charged with federal, provincial or municipal license costs which cannot be charged directly to the operations of a particular department. Also under this heading is included the cost of dues in business organizations not of a directly promotional nature.

9. Other Expenses

Under this classification should be grouped such items as are not distributable under other captions. Such items as, printing, stationery and postage when used by the manager's office, the accounting office or by employees whose salaries and wages are charged to administrative and general expenses. Also miscellaneous items such as special decorations, contributions and donations other than promotional, lease and storage of administrative equipment, subscriptions to trade publications, travel agency commissions, internal communication systems, administrative telephone charges, and the cost of travelling and automobiles for officers and employees of the business, except for travelling in connection with business promotion.

B. Advertising and Sales Promotion

This group of accounts will be charged with all costs incurred in connection with maintaining the existing goodwill of the establishment and the creation and promotion of new business. It includes such items as the cost of advertising in newspapers, magazines, directories, guide books, etc.; printing, stationery and postage of all promotional material; the cost of other advertising, the cost of entertainment for promoting business and any travel expense incurred in connection with promotional activities.

C. Heat, Light and Power

Under this account should be recorded all expenses connected with supplying the establishment with energy, including salaries and wages of employees employed in this department, the cost of electricity purchased from outside producers, oil, natural gas, propane (except kitchen fuels) electric lightbulbs, grease, fuses, waste removal and other miscellaneous costs, including licenses, meter rental, and water consumed.

D. Repairs and Maintenance

This group of accounts should be charged with all expenses in connection with the repair and maintenance of building, equipment, furniture and fixtures necessary to keep the property in good condition, including salaries and wages for employees working in this department. Also included in this expense category is the maintenance of grounds, including replacement of trees, shrubbery, upkeep of sidewalks, elevators, roadways, playgrounds, boat houses, tennis courts, etc. Costs of maintaining boat houses and golf courses etc. should be charged directly to the appropriate department if the amenity is treated as a separate revenue centre.

MONTHLY BALANCING PROCEDURE

		Amount			Amount
*Amount Column Cash Disbursement Journal (B-8)		$	Amount (B-10)		$_____
Cash Discount Column Cash Disbursement Journal (B-8)	+	$	Amount (B-11)	+	$_____
Total Petty Cash (B-9)	+	$	Amount (B-12)	+	$_____
Balance Acct. Payable Purchase Journal (B-7)	+	$	Amount (B-13)	+	$_____
			Statement of other Undistributed (B-14)	+	$_____
Total	=	$	= Total	=	$_____

*Excluded are payments for loans, interest, municipal taxes and purchases of capital goods assets.

MONTHLY BALANCING PROCEDURE

Schedule B-15 is a form which will aid in balancing the records each month. An important aspect of the reporting procedure for the statements is ensuring a balance between the entries on the statements and the amounts recorded in the journals. Recording the source of each entry on the statements in the "reference" column is important, as this will ease the clerical problem in looking for differences, should the total of the entries in the statements not balance to the total amounts from the journals.

FORM B-16

DAY ____________

CASHIER ____________

DAILY CASH RECORD – FRONT DESK

	RECEIPTS			DISBURSEMENTS				
EXPLANATION	GUEST LEDGER	CITY LEDGER	TOTAL RECEIPTS	PETTY CASH VOUCHER	CASH AMOUNT	GUEST LEDGER	CITY LEDGER	TOTAL DISBURSEMENTS

FRONT OFFICE DAILY CASH RECORD (Form B-16)

Each Front Office Cashier uses this form to record all transactions which occur during the shift. The different transactions which can take place are detailed below:

1. A guest checking out pays the account in cash. This amount would be recorded on the Guest Account Card against total charges and again in the "guest ledger" column and the "total receipts" column of the Front Office Daily Cash Record. In the "explanation" column, it would be sufficient to indicate the guest's name or room number.

2. A guest invoice which was not paid in cash on check-out, but settled by credit arrangement and is now being paid by cheque or money order. The amount received should be recorded in the "city ledger" and "total receipts" columns, and the amount shown as owing by the guest in the City Ledger Journal should be cancelled.

3. Cash turned in by cashiers of other operated departments such as dining room, recreation facilities, etc. The source of the cash should be indicated in the "explanation" column and the total amount recorded in the "total receipts" column.

4. A purchase of goods or services for the establishment is paid for in cash. The amount paid is recorded under the "disbursements" heading in the "cash amount" column, the petty cash voucher reference is indicated in the appropriate column, and the amount is shown again under "total disbursements". These transactions must agree with the entries in the "Petty Cash Journal" each day (i.e., 3 shifts).

5. A cash outlay is made for a guest staying in the property (e.g., C.O.D. package). The amount is entered in the "guest ledger" column and recorded on the Guest Account Card as "other".

6. Cash outlay is made for guests who have already checked out. The amount is entered in the "city ledger" column, and the same amount added to the City Ledger.

DAILY CASH RECONCILIATION

DATE	OPENING BALANCE (HOUSE BANK)	CASH RECEIPTS	CASH PAID-OUT	CASH ON HAND (END OF DAY)	CASH ACTUAL	OVER (SHORT)	BANK DEPOSIT	CLOSING BALANCE (HOUSE BANK)

DAILY CASH RECONCILIATION (Form B-17)

At the end of each shift a cash reconciliation should be prepared by each Front Office cashier.

1. Enter date of reconciliation in "date" column.

2. Enter the fixed amount that was in the cash float in "opening balance (house bank)" column. This amount should rarely change.

3. Enter the amount of all funds received in "cash receipts" column. This will be the amount turned into the Front Office and recorded in "total receipts" on the Front Office Daily Cash Record. Normally the "receipts" include items which result in immediate credit from the bank, including travellers cheques, money orders, etc.

4. The only cashier with authority to pay out funds should be the cashier on duty at the Front Office. The "cash paid out" column will show the amounts paid out, which must agree with the "total disbursements" amount shown in the Front Office Daily Cash Record.

5. The amount which should be on hand is calculated by adding the opening balance to the receipts and deducting any paid outs.

6. The column headed "cash actual" is the amount on hand as counted.

7. Should there be a difference between the calculated cash balance and the actual cash on hand, the difference should be recorded in the "over (short)" column.

FORM B-18

MONTH______197__

CITY LEDGER – JOURNAL

DATE	NAME, NATURE OF CHARGE AND IDENTIFICATION	AMOUNT OWED	PAYMENT	TRANSFER TO ACTIVE ACCOUNT	DATE	NEW BALANCE

CITY LEDGER (Form B-18)

The City Ledger is a detailed listing of accounts receivable, i.e., those amounts which guests owe after their departure.

The source of the entries is the Guest Account Cards, from the total amount shown against "city ledger", or if the charge arose from a food and beverage function, from a Guest Check.

The City Ledger form is initiated at the beginning of each month; the first entries are any amounts owing to you from the previous month's City Ledger.

Each entry in the City Ledger must indicate the date, the guest name, the nature of the charge (room or function) and the total amount owed.

As payments are received, they are recorded in the "payment" column, with the date of receipt indicated.

City Ledger entries can arise through three types of credit arrangement:

1. An individual has a credit arrangement with your establishment: In this case write the name of the guest, room number and/or kind of function and amount owed by individual.

2. A travel agency books a group or individual and payment is to be made by agency: Indicate name and address of agency and name of guest or group.

3. Your hotel honours credit cards: In this case only record the name of the credit card company and the total amount of charges, not individual guest charges.

The acceptance of credit cards is becoming increasingly common in accommodation establishments. The advantages are:

1. It is a convenience to guests.

2. Additional business may be attracted.

3. The operator is assured of obtaining payment.

The major disadvantages for smaller operations is that the percentage charged depends on the total volume of credit cards receipts; low volumes penalize the smaller establishment. Other disadvantages are:

1. The method of collection from the credit card companies varies, causing administrative problems. (The cards issued by Canadian chartered banks result in immediate credit to the account of the operator.)

2. However, acceptance of certain bank cards may require additional bank accounts being opened at a branch of the card-issuing bank.

3. The paper work is increased.

As an example, we have analysed two transactions which affect the City Ledger.

Mr. Smith and Mr. Jones, both guests of your hotel, pay their bill by credit card. Mr. Smith's bill is $50.90 and Mr. Jones' bill $48.20.

TOTAL CREDIT CARD PAYMENTS: $99.10

The credit card company demands a 3% commission on all charges:

CREDIT CARD COMMISSION: $2.97

Entries:

In City Ledger:

"Name, nature of charge and identification" column	– Name of credit card company
"Amount owed" column	– \$96.13 (\$99.10 minus \$2.97)

In Statement of Expenses – Administrative and General:

"Credit card commissions" column	– \$2.97

Balances owing in the City Ledger can be settled in the following way:

(a) **Full payment:** Indicate payment beside name, indicate date of payment and new balance will read zero. (Amount will have to appear on Daily Cash Record).

(b) **Part payment:** Indicate amount of payment, date and new balance (the difference between amount and payment). The amount will also appear on Front Office Daily Cash Record.

(c) **Transfer to active account:** This will only happen in cases where the hotel has a number of repeat visitors. If a guest checks out without paying his bill but returns at a later date, transfer the amount from the City Ledger to "balance forward" on the Guest Account Card. The "new balance" on the City Ledger now reads nil.

(d) **Charges uncollectable:** Transfer amount to the "bad debts" column on the Schedule of Expenses – Administrative and General.

Establishment of policies on collection of accounts receivable is an important management function. Management must develop a sense for that correct point in time to take strong collection action so as not to risk annoying guests, particularly when they are frequent patrons of the establishment.

As a general rule, lawyers who undertake collection action for their clients charge on the basis of hours, whereas collection agencies charge a percentage of amounts collected. In seeking assistance, the operator is normally well advised to give large amounts (say \$300 or more) to his lawyer, while the more usual amounts would be handled less expensively through dealing with a collection agency.

FORM B 19

MONTH________ 197__

ALLOWANCE JOURNAL

					DISTRIBUTIONS					
									OTHER DEPARTMENTS	
DATE	NAME OF GUEST	VOUCHER NO.	GUEST LEDGER	ACCOUNTS RECEIVABLE CITY LEDGER	ROOMS	FOOD	BEVERAGE	TELEPHONE	AMOUNT	EXPLANATION
TOTAL										

ALLOWANCE JOURNAL (Form B-19)

Many tourist establishments have the policy of giving the guest the "benefit of the doubt" when he contests a charge on his bill. An "allowance" in the amount of the charge is made, which reduces the amount which the guest owes and the departmental revenue.

Example:

Mr. Miller, upon check-out, examines his bill and finds a breakfast charge for $3.00. He claims that he never had the breakfast and that the signature on the check was not his. Following the policy of the hotel, you cancel the amount of the bill.

Entries:			
Guest Account Card (Form B–1)	Line 16	–	$3.00
Allowance Journal		–	Date
	Name	–	Mr. Miller, Room No.
	Voucher No.	–	No. of allowance voucher
	Guest Ledger	–	$3.00
	Food	–	$3.00

When a guest pays his bill and checks out he normally has accepted the charges; it is unlikely disputes will arise later. However, if Mr. Smith had a credit arrangement with your establishment and upon receipt of the bill at his home disputed the charge, the entry would read:

Allowance Journal		–	Date
	Name	–	Smith, Room No.
	Voucher No.	–	No. of allowance voucher
	Accounts Receivable		
	City Ledger	–	$3.00
	Food	–	$3.00

City Ledger Journal – Payment Column – Voucher No. and amount

At the end of the month transfer the totals of the distribution to the bottom line of the individual Departmental Statements of Expenses.

THEY ARE DEDUCTIONS FROM REVENUE.

MONTH 197

OPERATING STATEMENT

	NET SALES	COST OF SALES	BENEFITS PAYROLL AND	OTHER EXPENSES	PROFIT OR (LOSS)
OPERATED DEPARTMENTS					
ROOMS					
FOOD					
BEVERAGE					
TELEPHONE					
OTHER (DETAIL)					
RECREATION					
STORES					
OTHER					
GROSS OPERATING INCOME					
UNALLOCATED OPERATING EXPENSES					
ADMINISTRATIVE AND GENERAL					
ADVERTISING AND SALES PROMOTION					
HEAT, LIGHT AND POWER					
REPAIRS AND MAINTENANCE					
TOTAL					
HOUSE PROFIT*					

*Profit before Bank and Mortgage Interest, Depreciation, Municipal Taxes, Insurance and Rent.

OPERATING STATEMENT (Form B-20)

The purpose of the accounting system described in this manual is to enable the operator to record the data which is necessary for completion of periodic statements showing whether the operation is generating profits or losses. The Operating Statement can be prepared for any period of time, although it is typical in the hospitality industry to produce monthly operating reports. A number of large operations have opted to use uniform accounting periods of exactly four weeks, which has the advantage of making accounting periods more comparable with one another. This degree of sophistication is not likely to aid the operators of smaller establishments in understanding the financial strengthes and weaknesses of their organization, so for the purposes of this manual, we have assumed that monthly statements would be prepared.

To properly complete the Operating Statement, it is essential that payroll data be broken down into at least the following:

Rooms Department
Food Department
Beverage Department
Telephone Department
Other Operating Departments (Golf Course, etc.)
Administrative and General
Advertising and Sales Promotion
Heat, Light, Power
Repairs and Maintenance

Practically all figures needed to complete this form are recorded on the departmental statements of revenue and expense.

NET SALES – COST OF SALES – PAYROLL – WAGES AND BENEFITS –
OTHER EXPENSES = PROFIT OR (LOSS)

In the unallocated Expenses the total of payroll and other expenses is recorded in the Profit or Loss column.

GROSS OPERATING INCOME – TOTAL UNALLOCATED OPERATING EXPENSES
= HOUSEPROFIT

FORM B 21

PERIOD ENDING____197__

DEPARTMENTAL WAGE RECORD

DEPARTMENT	EMPLOYEE'S NAME	S M T W T F S	TOTAL ACTUAL HOURS WORKED REG O/T	S M T W T F S	TOTAL ACTUAL HOURS WORKED REG O/T	GRAND TOTAL ACTUAL HOURS WORKED REG O/T	RATE	CASH WAGES	EMPLOYEE BENEFITS

The following codes must be used if no hours are worked:
V-Vacation; S-Sick; NS-No Show; T-Terminated; O-Day Off.

MONTH________ 197__

WAGES SHEET

EMPLOYEE'S NAME ____________________ SOCIAL INSURANCE NO. ________________ NO. WITHHOLDING EXEMPTIONS ________________

ADDRESS ____________________ PHONE ________________ STARTED WORK ______________ PAY ________________

____

WAGE PERIOD ENDING	CASH WAGES	OTHER REMUNER-ATION	TOTAL PAY	DEDUCTIONS						TOTAL	NET PAY
				U.I.C.	G.P.P.	HOSP.	FEDERAL INCOME TAX	PROVINCIAL TAX	OTHER		

DEPARTMENTAL WAGE RECORD AND WAGES RECORD (Form B-21, B-22)

Most smaller operations would not employ a full time advertising and sales promotion staff person, and typically payroll costs in connection with heat, light and power accounts would be handled by maintenance staff, who are properly charged to the repairs and maintenance section. In a larger operation, the manager may spend a good deal of his time on advertising and sales promotion, so it may be appropriate to charge a portion of his salary to that account. As payroll costs are among the major expenses in any service industry, extra care has to be taken in recording them. The "Departmental Wages Record" is used to keep track of the time worked by employees in each department. It should be completed daily.

This record should only be used for employees who are paid on an hourly basis, not for employees receiving salary. The form provides for a two week pay period, the commonly accepted pay period in hotels/motels. Rocord on it the department, the employee's name and the number of hours which the employee worked during the week. At the end of the week total the hours worked, if it is more than he is required to work (normally eight hours per day = 40 hours per week) enter 40 hours in the Regular (Reg.) column and the difference in the Over Time (OT) column. At the end of the week take the total hours worked, multiply by the wage-rate and you have the gross wages which the employee is entitled to receive and which also are the labour expense of the particular department. Added should be the employer's contribution to the social benefits as described in earlier parts of the manual. They are an important cost item and as a general rule, amount to at least 10% of gross wages earned.

Other benefits such as employee meals and free laundry privileges can be entered once during the pay period, depending on the method of computation.

Do not forget to record unpaid family labour. This is done by recording on the form the hours worked by unpaid family members in any department and multiplying them by the daily rate it would have cost to have the work done by hired employees.

ALTHOUGH YOU DO NOT HAVE AN ACTUAL CASH DISBURSEMENT FOR UNPAID FAMILY LABOUR, IT HAS TO BE RECORDED AS A DEPARTMENTAL EXPENSE.

Every employee should have his own ''Wages Sheet''. On it you record wages, deductions and net pay. It is your source if the dollar amount of actual wages you have paid-out during the period.

NOTE: THE WAGE RECORD SHOWS YOU HOW MUCH WAGE EXPENSE HAS BEEN INCURRED DURING THE PAY PERIOD IN EACH DEPARTMENT. THE WAGES SHEET SHOWS YOU HOW MUCH MONEY YOU HAVE PAID OUT IN WAGES TO EACH EMPLOYEE.

FORM B-23

MONTH __________ 197__

INVENTORY SHEET

DESCRIPTION	QUANTITY	PRICE/UNIT	TOTAL	DESCRIPTION	QUANTITY	PRICE/UNIT	TOTAL

INVENTORY SHEET (Form B-23)

In order to prepare the operating statement it is necessary to determine the cost of sales. While accounting records of inventory should present an accurate picture of goods used in generating revenue, a physical inventory should be taken monthly in each department which purchases goods for resale to ensure the accuracy of accounting records.

The inventory sheet is presented as an aid in taking inventories. All items in the store room should be listed under the description in the same order as they are stored. The unit price should be marked on each item in the storeroom to ensure the actual cost price is recorded, rather than current market price or estimations of cost.

Inventories should also be taken of all goods which are on shelf in kitchen or bars.

Once all items have been listed the unit price should be multiplied by the quantity and all extensions totalled to arrive at the total cost of all goods on hand.

Variations of more than 2% between physical inventories and recorded inventories should be investigated to determine if shrinkage, spoilage, theft, or faulty record keeping have resulted in the deviation. Accurate inventory records and accurate monthly inventories will keep these losses to a minimum.

FORM B-24

MONTH ______ 197 __

COST OF FOOD SOLD

	INVENTORY AT BEGINNING OF MONTH	$
+	FOOD PURCHASES	$
–	INVENTORY AT END OF MONTH	$
=	GROSS COST OF FOOD CONSUMED	$
–	EMPLOYEE MEALS	$
=	TOTAL NET FOOD COST	$

FORM B-25

MONTH ______ 197 __

COST OF BEVERAGE SOLD

	INVENTORY AT BEGINNING OF MONTH	$
+	BEVERAGE PURCHASES	$
–	INVENTORY AT END OF MONTH	$
=	GROSS COST OF BEVERAGE CONSUMED	$
–	EMPLOYEES CONSUMPTION	$
=	TOTAL NET BEVERAGE COST	$

COST OF FOOD SOLD (Form B-24)

Once inventories are known it is a simple process to add purchases and subtract employee meals to arrive at the Cost of Food Sold. Menu pricing and control of food should be based on the food cost as derived from this form.

Accurate input during the preparation of this record will inform the operator of trends in food cost that should be recognized. A rising food cost percentage could be the result of failure to adjust menu prices, waste or theft. Early identification of adverse trends will allow for operational adjustments; menu price changes, reduction of portions or improved physical control to reduce spoilage, waste or pilferage.

The method used to compute and allocate the cost of employee meals will remain a decision of management. Some hotels compute the costs exactly, some assign a fixed amount. Some provincial governments set amounts for each meal consumed by an employee during working hours.

COST OF BEVERAGE SOLD (Form B-25)

This form is prepared in the same manner as the "cost of food sold" calculations, and serves the same purpose.

SUPPLEMENTARY ACCOUNTING JOURNAL
AND
FINANCIAL RECORDS

ADVANCE DEPOSIT JOURNAL

DATE DEPOSIT RECEIVED	NAME OF GUEST	EXPECTED DATE OF ARRIVAL	AMOUNT	TRANSFER TO ACTIVE ACCOUNT, FORM B-1 LINE 15	REPAID

INTRODUCTION

The following two accounting journals are auxiliary accounts only useful for some operators. One is a collection record for advance deposits; the other a collection account for pre-opening expenses.

Advance Deposit Journal (Form C-1)

On this journal you record all advance deposits which future guests send to you. As the money is cash for which services have not yet been rendered, it should be kept separate from your daily cash received. It may be advisable to open a separate bank account for these transactions if they are numerous.

Instructions

When an advance deposit is received, record name, expected date of arrival and amount of cheque.

When the quest arrives, transfer amount on guest account card (Line 15) and record in "Transfer" column of the Journal.

If a guest cancels his reservation, return amount and record it in "Repaid" column.

FORM C-2

SUMMARY OF PRE-SEASON EXPENSES

DATE	DESCRIPTION	AMOUNT	ROOMS	FOOD & BEVERAGE	OTHER DEPTS.	ADMINISTRATIVE AND GENERAL	ADV. & SALES PROMOTION	HEAT, LIGHT & POWER	REPAIRS & MAINTENANCE

Summary of Pre-season Expenses (Form C-2)

This journal is only used by seasonal operators to record expenses incurred before the property is open for business (regardless of date of payment). In order to get a realistic figure of operating expenses, all costs arising during the off-season have to be recorded and allocated.

It is common practice to distribute the pre-opening expenses over the course of the season. The methods used are varied; they may be distributed over the season according to estimated sales levels, or equally over the operating months.

Example

A seasonal operation is open four months. During the first and the last months the operation generates 30% of all its revenue, during the second and third months, 70%.

Distribution of Pre-opening Expenses

Based on Estimated Sales

Month 1 = 15%
Month 2 = 35%
Month 3 = 35%
Month 4 = 15%

Based on Months open

Month 1 = 25%
Month 2 = 25%
Month 3 = 25%
Month 4 – 25%

PAYMENT OF LOANS

CREDIT SOURCE

DATE	PRINCIPAL	INTEREST	DATE	PRINCIPAL	INTEREST	DATE	PRINCIPAL	INTEREST	DATE	PRINCIPAL	INTEREST

197__

RECORD OF CAPITAL LOANS

BORROWED FROM	PURPOSE COLLATERAL	ORIGINAL LOAN		OWING BEGINNING OF YEAR	BORROWED DURING YEAR	TERM	RATE	PAID DURING YEAR		OWING END OF YEAR
		YEAR	AMOUNT					PRINCIPAL	INTEREST	

197__

RECORD OF CURRENT LOANS

BORROWED FROM	PURPOSE COLLATERAL	ORIGINAL LOAN		OWING BEGINNING OF YEAR	BORROWED DURING YEAR	TERM	RATE	PAID DURING YEAR		OWING END OF YEAR
		YEAR	AMOUNT					PRINCIPAL	INTEREST	

SUPPLEMENTARY FINANCIAL RECORDS

The purpose of this section is to assemble information which helps you to analyze the financial position of your enterprise.

Payment of Loans (Form C-3)

This is a work sheet for up to four loans. Entries of payments against capital and interest are recorded as payments are made and totalled on this form. The transferred totals are to the Record of Capital or Currrent Loans at the end of the year.

Record of Capital Loans (Form C-4) and
Record of Current Loans (Form C-5

A complete list of loans owing accounts should be listed, showing the "beginning of year" status of each account. Additional loans taken out over the year should be recorded during the year.

At the end of the year, payments on account are totalled on the "Payment of Loans" schedule, and entered in "Paid During Year" column of current and capital loans.

Amount owing at the end of the year is entered in the last column.

197__

INVENTORY OF CAPITAL GOODS ASSETS

ITEM	PURCHASE OR CONSTRUCTION DATE	PURCHASE OR CONSTRUCTION PRICE	VALUE AT BEGINNING OF YEAR	CAPITAL IMPROVEMENT	SOLD OR DESTROYED	ESTIMATED USEFUL LIFE	NEW VALUE	DEPRECIATION		VALUE AT END OF YEAR
								RATE	AMOUNT	

INVENTORY OF CAPITAL GOODS ASSETS (Form C-6)

This account is designed to record cost and depreciated value of all capital goods assets, i.e., building, heating equipment, furnishings, kitchen equipment, laundry equipment, wells, pumps, motors, boats, cars, swimming pools, etc. As the ability of a hospitality enterprise to generate revenue depends greatly on the facilities it offers, great care should be taken in maintaining proper records for facilities.

Useful Life

A reliable guide for estimating the useful life of a property is past experience, together with all other pertinent evidence as to its condition.

The useful life of a building for business purposes depends very much on its structural quality, quality of upkeep, location and environment. Industry quidelines exist for establishing useful of furnishings and equipment, which are easier to measure because of a shorter useful life.

Listed below are guidelines for establishing the length of useful life of various types of assets.

Item	Average Useful Life (Years)
Guest Room, Dining Room furniture	12
Carpets, Rugs, Blankets, Drapes	6
Kitchen Equipment	10
Laundry Equipment	15
Springs, Mattresses	9
Cars, Boats	5

Method of depreciation

There are basically three methods of computing depreciation: straight line, declining balance and sum of the years digits. The latter two methods give higher depreciation charges in the early life of the property and reduce it in later years, theoretically compensating for increased costs of maintenance.

Example

$5,000 Pick-up Truck
Estimated useful life - 5 years

Straight Line

Rate of Depreciation: 20%
Amount of Depreciation per year: 20% × 5,000 = $1,000

Declining Balance

Rate of Depreciation: 40%
Amount of Depreciation per year:
1st year - 40% = 5,000 = $2,000
2nd year - 40% = 3,000 = $1,200
3rd year - 40% = 1,800 = $ 700

Sum of the Years Digits

Rate of Depreciation: $\frac{5}{15}$ $\frac{4}{15}$ $\frac{3}{15}$ $\frac{2}{15}$ $\frac{1}{15}$

Amount of Depreciation

1st year $\frac{5 \times 5{,}000}{15} = 1{,}666$

2nd year $\frac{4 \times 5{,}000}{15} = 1{,}333$

3rd year $\frac{3 \times 5{,}000}{15 \text{ etc.}} = 1{,}000$

It is advisable to consult an accountant or tax lawyer before deciding on one particular method of depreciation. The computation on Form C-6 need not necessarily conform with the approach adopted for income tax purposes. it is designed to provide information on the asset inventory, and helps in budgeting for capital outlays.

Canadian Government
Office of Tourism

Office de tourisme
du Canada